



U.S. Department of the Interior  
Office of Inspector General

# **AUDIT REPORT**

**FINANCIAL STATEMENTS FOR  
FISCAL YEAR 1996 FOR THE  
OFFICE OF THE SPECIAL TRUSTEE  
FOR AMERICAN INDIANS  
TRIBAL, INDIVIDUAL INDIAN MONIES,  
AND OTHER SPECIAL TRUST FUNDS  
MANAGED BY THE  
OFFICE OF TRUST FUNDS MANAGEMENT**

**REPORT NO. 98-I-206  
JANUARY 1998**



# United States Department of the Interior

OFFICE OF INSPECTOR GENERAL  
Washington, D.C. 20240

**JAN 21 1998**

## MEMORANDUM

TO: The Secretary

FROM:

Robert J. Williams *Robert J. Williams*  
Acting Inspector General

SUBJECT SUMMARY:

Final Audit Report for Your Information - "Financial Statements for Fiscal Year 1996 for the Office of the Special Trustee for American Indians Tribal, Individual Indian Monies, and Other Special Trust Funds Managed by the Office of Trust Funds Management" (No. 98-I-206)

Attached for your information is a copy of the subject final audit report. The objective of the audit of the Trust Funds financial statements, performed by Griffin and Associates, P.C., an independent public accounting firm, was to determine whether the financial statements for fiscal year 1996 were fairly presented; whether the internal control structure used by the Office of Trust Funds Management to account for the Trust Funds met the objectives established by the Office of Management and Budget; and whether the Office of Trust Funds Management had complied with laws and regulations in managing the Trust Funds. The Trust Funds consist of tribal and individual Indian monies and other special appropriations funds.

Based on our review of the audit, we found that it was performed in accordance with the Chief Financial Officers Act of 1990, as amended, and Office of Management and Budget Bulletin 93-06, "Audit Requirements for Federal Financial Statements."

The independent public accountant rendered a qualified opinion on the financial statements for fiscal year 1996 because cash and overnight investments could not be independently verified, cash balances were materially greater than those reported by the U.S. Treasury, major deficiencies in accounting systems controls and records caused the systems to be unreliable, and certain Trust Funds beneficiaries disagreed with balances recorded by the Office of Trust Funds Management and had filed or were expected to file claims against the Office. These conditions prevented the cash and trust funds balances and the receipts and disbursements from being audited. The independent public accountant's report on the internal accounting control structure contained 14 recommendations to address three material weaknesses, nine reportable conditions, and two advisory comments, and its report on compliance with laws and regulations contained a notice that some tribal organizations

and classes of Indian individuals had filed various claims against the Federal Government for the Government's failure to fulfill its fiduciary responsibilities. The report also addressed a material noncompliance issue relating to the unauthorized disbursement of trust funds and three immaterial noncompliance issues.

Based on the response from the Office of Trust Funds Management and the response from the Bureau of Indian Affairs to the 14 recommendations, we considered all of the recommendations resolved but not implemented.

If you have any questions concerning this matter, please contact me at (202) 208-4252.

Attachment

## CONTENTS

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Page

REPORT ON FINANCIAL STATEMENTS FOR FISCAL YEAR 1996 FOR THE OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS TRIBAL, INDIVIDUAL INDIAN MONIES, AND OTHER SPECIAL TRUST FUNDS MANAGED BY THE OFFICE OF TRUST FUNDS MANAGEMENT .....	1
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### APPENDICES

1. STATUS OF RECOMMENDATIONS FOR AUDIT REPORT 97-I-196 .....	67
2. RESPONSE FROM THE BUREAU OF INDIAN AFFAIRS .....	68
3. STATUS OF AUDIT REPORT RECOMMENDATIONS .....	70



# United States Department of the Interior

OFFICE OF INSPECTOR GENERAL  
Washington, D.C. 20240

**JAN 23 1998**

## Memorandum

**TO:** Special Trustee for American Indians,  
Office of the Special Trustee for American Indians

**From:** Robert J. Williams *Robert J. Williams*  
Assistant Inspector General for Audits

**Subject:** Audit Report on the Financial Statements for Fiscal Year 1996 for the Office of the Special Trustee for American Indians Tribal, Individual Indian Monies, and Other Special Trust Funds Managed by the Office of Trust Funds Management  
(No. 98-I-206)

This report presents the results of the audit of the Statement of Assets and Trust Fund Balances and the Statement of Changes in Trust Fund Balances for Tribal, Individual Indian Monies, and Other Special Trust Funds as of and for the year ended September 30, 1996, performed by the independent certified public accounting firm of Griffin and Associates, PC. The Trust Funds, which are managed by the Office of Trust Funds Management, under the Office of the Special Trustee for American Indians, consist of tribal and individual Indian monies and other special appropriated funds.

The audit was required by the Chief Financial Officers Act of 1990, as amended. This is the second audit of the financial statements of the Trust Funds. Our responsibility was to ensure that the audit was performed in accordance with the requirements of the Act and Office of Management and Budget Bulletin 93-06, "Audit Requirements for Federal Financial Statements." We made quality control reviews of the audit work performed by Griffin and Associates and provided technical assistance as appropriate. Based on our reviews, we found that the audit work by Griffin and Associates was performed in accordance with the requirements of the Act and the Bulletin. We believe that the financial statements, along with Griffin and Associates opinion, the report on the internal control structure, and the report on compliance with applicable laws and regulations, and our review of that work provide the Office of Trust Funds Management, the Special Trustee, and the Department of the Interior's Chief Financial Officer with a basis for evaluating the financial position of the Trust Funds and the limited progress made by the Office of Trust Funds Management in improving its overall operations.

In the report on the financial statements, Griffin and Associates issued a qualified opinion because cash and overnight investments could not be independently verified, cash balances were materially greater than those reported by the U.S. Treasury, major deficiencies in accounting systems controls and records caused the systems to be unreliable, and certain Trust

Funds beneficiaries disagreed with balances recorded by the Office of Trust Funds Management and had filed or were expected to file claims against the Office of Trust Funds Management. These conditions prevented the cash and trust funds balances and the receipts and disbursements from being audited. In addition, a potential liability to the Federal Government exists because of the claims filed by the beneficiaries over the Government's fiduciary responsibilities.

The independent public accountant's report on the internal control structure contained 14 recommendations to address three material weaknesses, nine reportable weaknesses, and two advisory comments as follows:

- The three material internal control weaknesses (pages 40-45) identified were: (1) inadequate internal financial reporting, which hampered management's ability to analyze receipt and disbursement activity; (2) unapproved disbursements totaling \$900,000 from the trust funds; and (3) the ineffective or inconsistent implementation of management policies and procedures by field offices.

- The nine reportable internal control weaknesses (pages 45-53) identified were the: (1) failure to include the cash located in suspense and budget clearing accounts as part of the cash reconciliation analysis; (2) recording of prior period adjustments to the individual Indian monies subsidiary ledger without adequate documentation; (3) lack of reliable individual Indian monies account balances for investing; (4) understatement of investments by \$679,642 by the newly implemented Bolt II investment accounting system; (5) inadequate policy and procedures governing the use of the individual Indian monies special deposit account and the use of this account by field staff in a manner inconsistent with management's stated purposes; (6) inconsistent distribution practices for interest earnings, which resulted in inequitable distributions to individual Indian monies account holders; (7) inclusion of individual Indian monies accounts with negative balances in the determination of interest earnings distributed to all accounts, which lowered the earnings distributed to accounts with positive balances; (8) lack of distribution of individual Indian monies interest earnings from mortgage-backed securities when earned because of an inappropriate accounting practice; and (9) overstatement of trust funds balances by \$4 million because some transfers were recorded as receipts.

- The two advisory internal control comments (pages 53-55) identified were the: (1) lack of written policies and procedures for overnight investments and (2) failure to develop a needs assessment and implementation plan for converting to the new Bolt II investment accounting system.

The independent public accountant's report on compliance with laws and regulations contained a notice that some tribal organizations and classes of Indian individuals have filed various claims against the Federal Government for failure to fulfill its fiduciary responsibilities. The report also addressed a material noncompliance issue relating to the unauthorized disbursement of trust funds (pages 63 and 64) and three immaterial

noncompliance issues (pages 64 and 65). Although the report contained no recommendations for these issues, the Office of Trust Funds Management responded to all four of the noncompliance issues.

In addition to the results of the audit of the Statements as of and for the year ended September 30, 1996, the Report of Independent Public Accounts also contains information on the Office of Trust Funds Management's and the Bureau of Indian Affairs minimal progress in addressing the material weaknesses and reportable conditions (Recommendations 1-16, pages 55-61) identified in the prior audit report "Statement of Assets and Trust Fund Balances at September 30, 1995, of the Trust Funds Managed by the Office of Trust Funds Management, Bureau of Indian Affairs" (No. 97-I-196), issued in December 1996. The corrective actions concerning these prior year findings are summarized in Appendix 1.

The independent public accountant's report on compliance with laws and regulations also summarized the noncompliance issues identified in the fiscal year 1995 audit report (pages 65 and 66).

Based on the response from the Office of Trust Funds Management (which was incorporated into the independent auditor's report) and the response from the Bureau of Indian Affairs (see Appendix 2) to the 14 recommendations (Nos. 17-30) addressing fiscal year 1996 activities, we consider Recommendations 17-26 and 28 and 29 resolved but not implemented and Recommendations 27 and 30 resolved and implemented. Accordingly, the unimplemented recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation, and no further response to the Office of Inspector General is required (see Appendix 3).

The legislation, as amended, creating the Office of Inspector General requires semiannual reporting to the Congress on all audit reports issued, actions taken to implement audit recommendations, and identification of each significant recommendation on which corrective action has not been taken.

cc: Assistant Secretary for Indian Affairs

U.S. DEPARTMENT OF THE INTERIOR  
OFFICE OF THE SPECIAL TRUSTEE  
FOR AMERICAN INDIANS  
TRIBAL, INDIVIDUAL INDIAN MONIES AND  
OTHER SPECIAL TRUST FUNDS  
MANAGED BY THE  
OFFICE OF TRUST FUNDS MANAGEMENT

FINANCIAL STATEMENTS

SEPTEMBER 30, 1996

WITH REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

U.S. DEPARTMENT OF THE INTERIOR  
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS  
TRIBAL, INDIVIDUAL INDIAN MONIES AND  
OTHER SPECIAL TRUST FUNDS  
**MANAGED** BY THE  
OFFICE OF TRUST FUNDS MANAGEMENT

TABLE OF CONTENTS

SEPTEMBER 30, 1996

	<u>Page</u>
OVERVIEW	1 - 6
REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON FINANCIAL STATEMENTS	7 - 8
STATEMENT OF ASSETS AND TRUST FUND <b>BALANCES</b>	9
STATEMENT OF CHANGES IN TRUST FUND <b>BALANCES</b>	10
NOTES TO <b>THE</b> FINANCIAL STATEMENTS	11 - 26
SUPPLEMENTARY COMBINING SCHEDULE OF ASSETS AND TRUST <b>FUND</b> BALANCES	27
SUPPLEMENTARY COMBINING SCHEDULE OF CHANGES IN TRUST <b>FUND</b> BALANCES	28
REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON INTERNAL CONTROL STRUCTURE	29 - 51
REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON COMPLIANCE WITH <b>LAWS</b> AND REGULATIONS	52 - 55

U.S. DEPARTMENT OF THE INTERIOR  
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS  
TRIBAL, INDIVIDUAL INDIAN MONIES AND  
OTHER SPECIAL TRUST FUNDS  
**MANAGED** BY THE  
OFFICE OF TRUST FUNDS MANAGEMENT  
OVERVIEW OF THE REPORTING ENTITY

SEPTEMBER 30, 1996

## MISSION AND ORGANIZATIONAL STRUCTURE

### HISTORICAL PERSPECTIVE

Funds have been held in trust for American Indians by the federal government since 1820. The Office of Indian Affairs (OIA) was made a part of the War Department on March 11, 1824, and almost immediately criticisms arose regarding the **management** of Indian financial matters. The OIA operated informally until 1832, when the first Commissioner of Indian Affairs was appointed by Congress. In 1834, during the 23rd Congress, the House of Representatives **Committee** on Indian Affairs passed legislation to address the management of Indian trust funds. In 1849, the OIA was transferred to the Department of the Interior. The Act of February 12, 1929 authorized the payment of interest on certain funds held in trust by the United States for Indian tribes, and the Act of June 24, 1938 authorized the deposit and investment of Indian monies. In 1947, the Bureau of Indian Affairs (BIA) was officially established. Since then, the responsibility for the management of Indian trust funds has been determined by a series of treaties, statutes, and court decisions.

The American Indian Trust Fund Management Reform Act of 1994 (P.L. 103-412) was passed by the 103rd Congress and signed by President Clinton on October 25, 1994. The major provisions of P.L. 103-412 allow Indian Tribes greater input and control over their trust fund accounts and the reaffirmation of the **Government's** responsibility by:

#### Title I - Recognition of Trust Responsibility;

- (1) Providing affirmative action, responsibility for the daily and annual balances of Indian Trust Funds, payment of interest on Individual Indian Moneys accounts, and authority for payment of claims for interest owed.

#### Title II - Indian Trust Fund Management Program;

- (2) Providing for voluntary withdrawal and management of the Indian Tribes own funds, providing Indian Tribes with technical assistance, authority to award grants to Indian tribes for the development and implementation of investment plans of Indian tribal trust funds, and provisions to return withdrawn funds.

#### Title III - Special Trustee for American Indians;

- (3) Establishing a Special Trustee to oversee all aspects of trust management reform within the **BIA**, Bureau of Land **Management** and the Minerals Management Service including the coordination of policies, practices, systems development, technical assistance, training and recruitment of Indians in the Trust management programs, and regular reporting to Tribal and Individual Indian Money (**IIM**) account holders.

## TREATIES, LAWS AND AGREEMENTS

The responsibility, or trusteeship, for the holding of funds by the United States for the benefit of individual Indians and Indian Tribes was first and most importantly established by treaties. However, it was not until 1820 that the federal government adopted the policy of holding tribal funds in trust.<sup>1</sup> However, since 1871, the Congress, acting within the scope of its constitutional powers, controlled and managed Tribal and individual Indian funds through legislation.

There are also agreements involving fund management between the Tribes and the Federal government by which a specific Indian trust fund is established. The holding and management of trust funds has also been a long standing principle of the federal government.

## DESIGNATED TRUSTEE

The Secretary of the Interior (the Secretary) is designated as Trustee of funds held by the federal government for Indian Tribes and individual Indians. The Secretary delegated authority for the management of Indian trust funds to the Assistant Secretary - Indian Affairs. This authority was re-delegated to the BIA and was administered by the BIA's Office of Trust Funds Management.

Prior to October 1989, trust funds management within the BIA was spread across various offices with little or no coordination of policy and/or management controls. Secretarial Order No. 3137, dated October 26, 1989, established the Office of Trust Funds Management (OTFM). The OTFM is responsible for the development and implementation of all policies and procedures governing the trust funds management program, and prior to February 1996, reported directly to the Deputy Commissioner of Indian Affairs. The OTFM, located in Albuquerque, New Mexico, oversees the Indian trust fund operations at the BIA Area/Agency Offices as opposed to the general trust responsibility, such as education, housing, social programs of all types and other American Indian services provided by the BIA. The mission of OTFM is, "To assure the highest level of accuracy' responsiveness and service in the collection, investment and disbursement of all judgment awards, Special Acts and income from trust resources belonging to Native American Indians."

Secretarial Order No. 3197, dated February 9, 1996, established the Office of the Special Trustee for American Indians (OST), and transferred the OTFM and other financial trust services functions from the BIA into the Office of the Special Trustee.

Under P.L. 103-412, the Special Trustee is required to develop and recommend a Strategic Plan of Reforms to the Secretary and the Committee on Natural Resources of the House of Representatives and the Committee on Indian Affairs of the Senate. Once the plan is approved, the Special Trustee oversees the implementation of the Strategic Plan of Reforms. Conditioned upon implementation of reforms, the OST shall continue until all reforms identified in the strategic plan have been implemented. There are no plans to transfer any other office or any other trust

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<sup>1</sup> Historical and legal Analysis of the Federal Government's Fiduciary Duties Regarding American Indian Trust Funds, by Curtis G. Berkey, May, 1988, Indian Law Resource Center.

functions into the OST. The OTFM will be transferred to another unit, **determined** by Congress, when the Office of the **Special Trustee** it **sunset**.

#### FIDUCIARY RESPONSIBILITY

In carrying out the management and oversight of the Indian Trust **Funds**, the Secretary has a fiduciary responsibility to ensure that **trust** accounts are properly maintained and invested in accordance with **applicable** laws, and that accurate and complete reports are provided to the account holders.

Decisions of the Supreme Court reviewing the legality of administrative conduct in **managing** Indian property have held officials of the United States to "**moral obligations of the highest responsibility and trust**" and "**the most exacting fiduciary standards,**" and be "**bound by every moral and equitable consideration to discharge its trust with good faith and fairness.**"

#### TRUST FUND ACCOUNTS

Indian Tribes and individual Indians trust funds are primarily derived from claims judgment awards and proceeds from surface and sub-surface leasing such as agriculture, business' timber, minerals, or oil and gas. The major portion of tribal funds consist of judgment awards (68% as of September 30, 1996) while individual Indian funds realize receipts primarily from royalties on natural resource depletion, land use **agreements**, enterprises having a direct relationship to Trust fund resources, per capita payments, and investment income. The composition of Indian trust funds, when taken as a whole, in terms of the source of funds has not changed significantly since April 1993 with the establishment of the Tribal Economic Recovery Fund, however, the value of the funds and number of the accounts have grown.

#### OTFM PROGRAM STRUCTURE

The Office of Trust Funds Management operates in the following program structure.

- Division of Trust **Funds** Quality Assurance - Responsible for issuing policies and procedures, and records keeping while establishing a basis for performing internal, financial and compliance reviews.
- Division of Trust **Funds** Services - The Branch of Investments is responsible for trust fund investment functions and the Branch of Customer Service interacts directly with account holders to provide **customer** services to tribal and individual account holders.
- Division of Trust **Funds** Accounting - **Responsible** for the day to day operations for all investments, Tribal and Individual Indian Money accounting functions.
- Division of Trust **Funds** systems - Responsible for providing technical assistance to users of the OTFM systems, as well as new software systems and hardware enhancements.

- Division of Trust Funds Reporting/Reconciliation - Responsible for financial reconciliation efforts and responsible for all financial reporting to the OMB, Department of the Treasury, Department of the Interior and providing other special reports.

#### TRUST FUND ACCOUNTING SYSTEMS

Prior to April 1, 1995, the primary accounting system for all trust funds accounts managed by OTFM was the Trust Funds Management System (TFMS). The TFMS was a system developed in the 1960s by the BIA and was used for all accounting activities prior to 1991. In 1991, the BIA converted its accounting activity to the Department of Interior's Federal Financial System (FFS), while the trust funds remain on the TFMS.

During the TFMS era, a subsidiary accounting system was contracted for the purpose of managing the investment portfolios of the trust accounts. This system was known as the Money Max system, and later as Series II, as provided under contract by SunGard.

The IIM accounts are kept on a subsidiary accounting system known as the IIM system. The IIM system is part of a larger BIA system known as the Integrated Records Management System (IRMS).

On April 1, 1995, the OTE'M converted to a commercial trust asset management system known as the OmniTrust system. The OmniTrust system replaced the TFMS and the Money Max/Series II systems and is used by a number of major trust departments across the country. The IIM accounts continue to be maintained on the IIM/IRMS system.

The OmniTrust system does not amortize premiums nor accrete discounts on investment purchases using the effective interest method in accordance with commercial standards. In 1996, OTFM implemented the Bolt II system to satisfy financial reporting requirements in order to appropriately perform amortization and accretion calculations for the investment portfolio, in accordance with Statement of Financial Accounting Standards No. 91 guidelines.

#### TRUST FUND REPORTING ENVIRONMENT

The Indian trust funds managed by OTFM are held in eight separate Department of the Treasury (Treasury) accounts, called "Appropriations." Appropriations are reported as funds with Treasury. The appropriations vary from Treasury Account Symbols. Treasury Account Symbols are for reporting Clearing and Suspense Accounts by Agency Location Code.

Indian Trust Fund appropriations represent separate Indian trust funds and Special Trust Funds, created and managed for different purposes and groups of beneficiaries. The financial activity in each of the Appropriations is reported to the Treasury on a monthly and annual basis through a series of reports required and refined by the Treasury.

Each of the Indian trust funds managed by OTFM has a particular history and set of documents which define why the trust was created, purpose for which it is intended, who its beneficiaries are, and other information needed to manage the fund. In almost every trust, the beneficiaries are either Indian Tribes, Alaska Native

Corporations and Villages, or individual American Indians. The beneficiaries are often referred to as account holders. Tribal trust funds managed in the **OmniTrust** system receive quarterly and annual statements on their accounts. Other optional statements are available on request. American Indians whose accounts are managed in the **IIM** system receive quarterly statements, as required by P.L. 103-412.

Financial statements for the American Indian Trust Funds are required as defined by the Chief Financial Officers Act of 1990 (CFO Act), and P.L. 103-412. The form and content of the **OTFM's** financial statements as of **September 30, 1996**, which this Overview is a part, are defined by the OMB Circular 94-01. The CFO Act further requires that agencies obtain an annual financial audit in accordance with Federal government standards. The accompanying financial statements have been produced by the **OTFM** management to comply with these requirements.

The **OTFM** and the DOI, Financial Management Office are working jointly to have an authoritative accounting body and/or the Federal Government to issue specific language addressing financial reporting and public disclosure requirements of financial trust activities for Tribal, Individual Indians and other Special Trust Funds, managed by the Federal Government.

The **OTFM** currently is required to account for its trust fund activities under the **comprehensive** accrual method of accounting, in accordance with the CFO Act and Generally Accepted Accounting Principles (**GAAP**). The accrual accounting method however is not consistent with financial reporting requirements for commercial trust activities, which utilize the cash basis method of accounting.

The preceding paragraph is just one example of financial trust reporting discrepancies that exist between the Federal Government and the commercial sector. The disparity in accounting practices for trust funds managed by the Federal Government versus trust funds managed in the commercial sector needs to be reviewed. This review should culminate with the issuance of authoritative guidance on the topic of financial reporting and public disclosure requirements of financial trust activities for Tribal, Individual Indians and other Special Trust Funds managed by the Federal Government. These reporting and disclosure requirements should be required in order for the Federal Government to provide and compile meaningful financial trust information and trust financial statements to external and internal users.

The **OTFM** believes that the financial trust activities that it oversees should have financial and disclosure requirements consistence with that of the commercial sector. However, until financial reporting and disclosure requirements are issued that supersede current requirements, the **OTFM** will continue to report for Indian financial trust activities in accordance with CFO Act requirements.

#### **FINANCIAL PROGRAM AND PERFORMANCE IMPROVEMENTS**

Since Secretarial Order No. 3137, dated October 26, 1989, established the Office of Trust Funds Management (**OTFM**). The **OTFM** is responsible for establishing proper controls and accountability for operation and management of Indian trust funds as well as receiving from the BIA reportable Material Weakness of Individual Indian Monies (**IIM**) and Tribal Trust Funds.

There have been changes to the internal control structure subsequent to September 30, 1995: The significant administrative control elements instituted in the OTFM organization is the direct supervision of field offices and operations by Chief, Division of Field Operations. This position has been encumbered since January 1997. Second, the Memorandum of Understanding between OST/OTFM and BIA will refine the operational capabilities for the trust fund operations and is anticipated for implementation in FY 1997. Other progressive steps have been implemented like the issuance of Investment Policy, establishment of an investments Executive Review Committee, IIM Reconciliation Project, Investments Records Management, and increased training.

The Special Trustee, of which the OTFM is an organization within the OST, is preparing to deliver a Strategic Plan of Reforms to the Secretary and United States Congress that will address the trust management problems in calendar year 1997.

#### PERFORMANCE GOALS AND RESULTS

Secretarial Order No. 3197, dated February 9, 1996, implemented the OST as defined in P.L. 103412, American Indian Trust Fund Management Reform Act, and transferred the OTFM and other financial trust services functions from the BIA into the Office of the Special Trustee. In preparation of the Fiscal Year 1998 Budget Justification, the OTFM has expressed language on annual performance plans under the Government Performance and Results Act (GPRA). The expression of terms of objective, relevant measures that disclose the extent to which its programs are achieving the intended objectives will be the initial communications in the evaluation processes.

#### LIMITATIONS OF THE FINANCIAL STATEMENTS

The financial statements have been prepared to report the assets and trust fund balances, and changes in fund balances as of September 30, 1996.

The statements have been prepared from the books and records of the OTFM in accordance with the formats prescribed by OMB.

The statements are a footnote as a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

#### CONCLUSION

The spirit and intent of the American Indian Trust Funds has its traces back to the early 1800s. The OTFM, in its brief history, embraces the honor and commitment to manage and adequately maintain and administer the fiduciary responsibility to the account holders. The Office of the Special Trustee for American Indians and the Office of Trust Funds Management are enthusiastic about the reforms and conceptual plans for the future regeneration of the inherent accountability and responsibility to our account holders.

U.S. DEPARTMENT OF THE INTERIOR  
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS  
TRIBAL, INDIVIDUAL INDIAN MONIES AND  
OTHER SPECIAL TRUST FUNDS  
MANAGED BY THE  
OFFICE OF TRUST FUNDS MANAGEMENT

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON FINANCIAL STATEMENTS

SEPTEMBER 30, 1996

# GRIFFIN & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

DAN D. GRIFFIN

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## REPORT OF INDEPENDENT. PUBLIC ACCOUNTANTS ON FINANCIAL STATEMENTS

To the U.S. Department of the Interior

Office of the Special Trustee for American Indians:

We have audited the accompanying Statement of Assets and Trust Fund Balances and the related Statement of Changes in Trust Fund Balances for the Tribal, Individual Indian Monies and Other Special Trust Funds managed by the U.S. Department of the Interior Office of the Special Trustee for American Indians Office of Trust Funds Management (the "OTFM") as of and for the year ended September 30, 1996. These financial statements are the responsibility of management of the OTFM. Our responsibility is to express an opinion on these financial statements based on our audit. As discussed in Note 2, the accounting policies used by OTFM to prepare these financial statements are in accordance with Office of Management and Budget ("OMB") Bulletin Number 94-01, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards, standards for financial audits contained in *Government Auditing Standards* (1994 Revision) issued by the Comptroller General of the United States and OMB Bulletin 93-06, "*Audit Requirements for Federal Financial Statements*". Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used, and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed further in the Notes to the Financial Statements, (1) cash and overnight investments are maintained by a related U.S. Governmental Agency (U.S. Treasury) and cannot be independently confirmed, (2) cash balances reflected in the accompanying financial statements are materially greater than balances reported by the U.S. Treasury, (3) major inadequacies in the Trust Fund accounting systems, controls and records caused the system to be unreliable, (4) various Tribal organizations and classes of Individual Indians for whom the OTFM holds assets in trust do not agree with certain OTFM accountings and balances recorded by the OTFM; and certain of these parties have filed, or are expected to file, claims against the OTFM. This may result in a potential liability to the Federal government so large that it is not reasonably estimable. Because of these matters, it was not practicable to extend our auditing procedures to enable us to express an opinion regarding the basis on which cash and Trust Fund balances in the Statement of Assets and Trust Fund Balances and individual categories within the Statement of Changes in Trust Fund Balances are stated.

In our opinion, except for the effect on the financial statements of adjustments that might have been determined had we been able to perform adequate audit

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procedures to verify the financial elements described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position and change in Trust Fund balances of the Tribal, Individual Indian Monies and Other Special Trust Funds managed by the U.S. Department of the Interior Office of the Special Trustee for American Indians Office of Trust Funds Management as of September 30, 1996, and for the year then ended in conformity with the comprehensive basis of accounting described in paragraph one above.

We have also issued separate reports dated January 17, 1997, on the OTFM's internal control structure and on its compliance with laws and regulations.

The information in the Overview Section, which management is required to submit, is not a required part of the basic financial statements, but is supplementary information required by OMB Bulletin Number 94-01, "Form and Content of Agency Financial Statements." We did not audit this information, and because of the exceptions set forth above, we do not express an opinion on such information.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Combining Schedule of Assets and Trust Fund Balances, and the related Supplementary Combining Schedule of Changes in Trust Fund Balances as reflected on pages 27 - 28 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, except for the items set forth above, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



GRIFFIN & ASSOCIATES, P.C.  
Certified Public Accountants

Boulder, Colorado  
January 17, 1997

U.S. DEPARTMENT OF THE INTERIOR  
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS  
TRIBAL, INDIVIDUAL INDIAN MONIES AND  
OTHER SPECIAL TRUST FUNDS  
MANAGED BY THE  
OFFICE OF TRUST FUNDS MANAGEMENT

FINANCIAL STATEMENTS

SEPTEMBER 30, 1996

U.S. DEPARTMENT OF THE INTERIOR  
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS  
TRIBAL, INDIVIDUAL INDIAN MONIES AND  
OTHER SPECIAL TRUST FUNDS  
MANAGED BY THE  
OFFICE OF TRUST FUNDS MANAGEMENT

STATEMENT OF ASSETS AND TRUST FUND BALANCES  
SEPTEMBER 30, 1996

ASSETS

Non-Entity assets:

**Intragovernmental assets:**

Fund balance with Treasury (Note 4):

Cash \$ 3,776,896

**Investments** (Note 5):

Overnight investments 224,073,381

**Government** backed securities 2,251,340,436

Accrued interest receivable 29,867,169

Governmental assets:

Investments (Note 5):

Certificates of deposit 33,826,175

Equity securities 17,657,000

Mortgage backed securities 251,803,757

Accrued interest receivable 2,268,916

Total assets \$ 2,814,613,730

TRUST FUND BALANCES, held for Indian Tribes,  
individual Indians and Other Special  
Trust Funds (Note 8)

\$ 2,814,613,730

The accompanying notes are an integral part of these **statements**.

U.S. DEPARTMENT OF THE INTERIOR  
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS  
TRIBAL, INDIVIDUAL INDIAN MONIES AND  
OTHER SPECIAL TRUST FUNDS  
MANAGED BY THE  
OFFICE OF TRUST FUNDS MANAGEMENT

STATEMENT OF CHANGES IN TRUST FUND BALANCES  
FOR THE YEAR ENDED SEPTEMBER 30, 1996

RECEIPTS:

Interest and dividends earned on invested funds (Note 2):	
Intragovernmental assets	\$ 167,588,167
Governmental assets	26,036,247
Gains on disposition of investments:	
Intragovernmental assets	16,744,975
Governmental assets	779,881
Other Receipts (Note 2C)	<u>604,847,979</u>
	815,997,249

DISBURSEMENTS:

Payments to and on behalf of Indian Tribes, individual Indians and Other Special Trust Funds (Note 2D)	(626,803,944)
Withdrawal of trust fund assets by Tribes	<u>(46,030,695)</u>
Receipts in excess of disbursements	143,162,610
TRUST FUND BALANCES, beginning of year	<u>2,671,451,120</u>
TRUST FUND BALANCES, end of year (Note 8)	<u>\$ 2,814,613,730</u>

The accompanying notes are an integral part of these statements.

U.S. DEPARTMENT OF THE INTERIOR  
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS  
TRIBAL, INDIVIDUAL INDIAN MONIES AND  
OTHER SPECIAL TRUST FUNDS  
MANAGED BY THE  
OFFICE OF TRUST FUNDS MANAGEMENT

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 1996

NOTE 1 -- BACKGROUND AND DESCRIPTION OF THE ORGANIZATION

A. Overview of Trust Funds, the Office of the Special Trustee for American Indians ("OST") and the Office of Trust Funds Management ("OTFM")

Formation of the Trust Funds - The legislation which authorizes the Secretary of the Interior ("the Secretary") to manage the Tribal and Individual Indian Monies ("IIM") Trust Funds ("Trust Funds") gives formal recognition to the relationship that exists between the Indian Tribes and the U.S. Government. At the time the U.S. Government was founded, Indian sovereignty was recognized. Agreements between the U.S. Government and the various Indian Tribes, therefore, took the form of treaties. During the course of the nation's history and the U.S. Government's varying policies toward Indian Tribes, this relationship has retained its original sovereign characteristics.

The balances that have accumulated in the Trust Funds have generally resulted from payments of claims by the U.S. Government, land use agreements, oil, gas and mineral extraction and investment income.

The Secretary has been designated by the U.S. Congress as the U.S. Government trustee on behalf of the account holders of the Trust Funds. Through February 8, 1996, the Secretary, in turn, delegated authority for management of the Trust Funds, including accounting and financial reporting, to the Assistant Secretary - Indian Affairs, who carried out the management of the Trust Funds through the OTFM. The American Indian Trust Fund Management Reform Act of 1994 ("P.L. 103-412") provided for the establishment of the OST. As discussed in Note 7, on February 9, 1996, the Secretary delegated authority for management of the Trust Funds to the OST, which now oversees the OTFM.

Organization of the OST - The management of the Trust Funds is accomplished through a cooperative arrangement with the Bureau of Indian Affairs ("the Bureau"), OST and OTFM.

- ♦ Agency and Field Office - The Bureau maintains 89 Agency and Field Offices located throughout the United States. Generally, Agency and Field Offices are physically located near the Tribes served. The Agency and Field Offices may play a significant role in Tribal affairs through assistance in financial planning, financial operations and policy and program development. OST personnel located at most of the Agency offices perform various functions related to trust activities.
- ♦ Area Office - Each of the Agency and Field Offices is organized under one of 12 Area Offices. The Area Offices provide administrative and operational support for their respective Agency and Field Offices.

U.S. DEPARTMENT OF THE INTERIOR  
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS  
TRIBAL, INDIVIDUAL INDIAN MONIES AND  
OTHER SPECIAL TRUST FUNDS  
MANAGED BY THE  
OFFICE OF TRUST FUNDS MANAGEMENT

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 1996

- ◆ Office of Trust Funds Management - The OTFM, established October 26, 1989, and located in Albuquerque, New Mexico, has management responsibility **over all** Indian Trust Funds. The OTFM carries out its responsibilities through the following Divisions and Staff Offices:
  - ◇ Division of Trust Funds Quality Assurance - This division plans, **develops**, operates and controls the internal management systems evaluation program. The division advises OTFM management on the efficiency, economy, legality and effectiveness of operations at the program and field level. It is responsible for receiving, communicating and monitoring compliance with **all** mandated laws and regulations.
  - ◇ Division of Trust Funds Systems - This division provides daily OTFM-wide technical system support.
  - ◇ Division of Trust Funds Accounting - This division processes and controls accounting activities which record and report funds collected, disbursed, invested, and held in trust. It plans, develops, and recommends policies and procedures governing collection of Trust Funds, as well as monitoring collections and recording of funds. It is also responsible for investment accounting activities and for providing custodial services for **investment** activities.
  - ◇ Division of Trust Funds Services - This division plans, develops, operates, and controls the buying, selling, and trading of investments in accordance with applicable laws, regulations, and policies. It provides technical advice and assistance to Area Offices, Agency Offices, and Indian Tribes in developing financial plans and **investment** strategies for Trust Funds.
  - ◇ Division of Reporting/Reconciliation - This division is responsible for reconciling subsidiary accounts and monitoring Trust Fund activities. **The** Division prepares certain financial and accounting reports for use within the Federal government and for inclusion in various OTFM-wide reports.

B. Description of the Trust Funds

The **Trust Funds** are managed by the OTFM on behalf of Tribes, IIM account holders, and Other Special Trust Funds. Certain of the Tribal, IIM and Special Trust Funds described above are subject to legal, regulatory, budgetary, court **ordered or other** restrictions. In addition, certain account beneficiaries have **discretionary investment** decision-making rights.

A brief description of each Trust Fund follows:

U.S. DEPARTMENT OF THE INTERIOR  
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS  
TRIBAL, INDIVIDUAL INDIAN MONIES AND  
OTHER SPECIAL TRUST FUNDS  
MANAGED BY THE  
OFFICE OF TRUST FUNDS MANAGEMENT

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 1996

- ♦ Tribal Fund - Approximately 315 Tribes have an interest in the Tribal Fund; however, some Tribes have multiple accounts. As a result, approximately 1,600 separate accounts comprise the Tribal Fund. Approximately 31% of the Tribal Fund assets are held on behalf of six Tribes.

Accounts are maintained for Tribes within the Trust Funds. Tribes realize receipts from a variety of sources including land use agreements, royalties on natural resource depletion, Tribal enterprises related to trust resources, awards of Indian claims and investment income.

Reclassifications to Beginning Trust Fund Balances

Although not discreetly reported in the accompanying Statement of Assets and Trust Fund Balances, a portion of the beginning aggregate fund balance was reclassified from Other Special Funds to Tribal Trust in fiscal year 1996. The funds for the specific appropriations described below do not contain any reversionary clauses. The monies have been permanently awarded to each particular Tribe as follows:

Balance  
Reclassified

Navajo Rehabilitation Trust Fund - The Navajo Rehabilitation Trust Fund was established to support the rehabilitation and improvement of Navajo communities and to enhance the economic, educational, and social condition of Navajo and Hopi families i-acted by the Navajo and Hopi Indian Relocation Amendments of 1988.

\$ 5,182,398

Tribal Economic Recovery Fund - The Three Affiliated Tribes and the Standing Rock Sioux Tribe were awarded a settlement for land by the U.S. Government for the site of the Garrison Dam and Reservoir and the Oahe Dam and Reservoir. The fund will be used for educational, social welfare, economic development, and other programs, subject to the approval of the Secretary.

\$249,785,871

Northern Cheyenne Reserved Water Rights Fund - The Northern Cheyenne Tribe was awarded a settlement for reserved water rights claims in the Tongue River Basin. This fund was established by the Treasury to implement the Tongue River Dam Project, which was to correct safety inadequacies of the dam, conserve and develop the fish and wildlife resources in the Tongue River Basin, and to authorize certain modifications to the management and operation of the Big Horn Reservoir.

\$ 18,530,619

U.S. DEPARTMENT OF THE INTERIOR  
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS  
TRIBAL, INDIVIDUAL INDIAN MONIES AND  
OTHER SPECIAL TRUST FUNDS  
MANAGED BY THE  
OFFICE OF TRUST FUNDS MANAGEMENT

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 1996

- ◆ IIM Fund - The IIM Fund is primarily a deposit fund for individuals as well as estates, Tribes and other organizations which may have a fiduciary interest in the Trust Funds. IIM account holders realize receipts primarily from royalties on natural resource depletion, land use agreements, enterprises having a direct relationship to Trust Fund resources and investment income. In addition, the IIM Fund contains disbursing accounts for certain Tribal operations and enterprises. Approximately 317,000 accounts are held for participants and Tribal enterprises in the IIM Fund. Approximately 83% of the IIM fund assets are held by six Area Offices, on behalf of the account holders they serve. Because of the nature of Trust Fund assets, these interests may represent allocated or unallocated monies derived from a variety of sources.
- ◆ Other Special Trust Funds - Other Special Trust Funds represent other trust assets currently managed by the OTFM. Authorization for management of these assets is based on U.S. Congressional Acts establishing such Funds. Each of these funds either reverts back to the U.S. Government upon certain conditions, or the corpus of the fund is non-expendable. A brief description of each Fund follows:
  - ◇ Alaska Native Escrow Fund - The Alaska Native Escrow Fund was established by Congressional act for Alaska Native Corporations and Villages for land of which boundaries were disputed. Proceeds received or deposited into this fund were derived primarily from contracts, leases, licenses, permits, rights-of-way, etc. The proceeds, plus accrued interest, are paid out to the appropriate corporation or individual to which the land was conveyed by the U.S. Government.
  - ◇ Cochiti Wetfields Fund - The Pueblo de Cochiti ("Pueblo") and the U.S. Army Corps of Engineers entered into a settlement agreement for water seepage problems at the Cochiti Dam on Tribal lands. The agreement established a fund for the sole and specific purpose of operating, maintaining, repairing and replacing this drainage system. Although the fund is invested and managed by the OTFM, the fund remains the property of the United States, and will revert to the Department of the U.S. Treasury ("Treasury") if Cochiti Dam becomes non-operational and the Pueblo agrees that the drainage system is no longer needed.
  - ◇ Papago Cooperative Fund - The Papago Tribe, with respect to the San Xavier Reservation and the Schuk Toak District of the Sells Papago Reservation, was awarded a settlement in the form of water rights for water which was taken from reservation land. The water rights give the Tribe flexibility in the management of water resources and encourage allocation of those resources to their highest and best uses. The awarded funds are to be used

U.S. DEPARTMENT OF THE INTERIOR  
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS  
TRIBAL, INDIVIDUAL INDIAN MONIES AND  
OTHER SPECIAL TRUST FUNDS  
MANAGED BY THE  
OFFICE OF TRUST FUNDS MANAGEMENT

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 1996

for Tribal government, health, education, social services, capital improvements and economic development programs.

- 0 Contributed Funds - The OTFM maintains eight (8) contributed funds which were established by donations. The individual funds each have a specific use or purpose in some form to better the American Indians by giving assistance for education or Tribal operations.
- 0 George C. Edgeter Fund - This fund is available, according to the terms of the bequest, for expenditure as determined by the Assistant Secretary - Indian Affairs for the relief of indigent American Indians.

C. Investment of Trust Fund Assets

Authorizing legislation and a substantial body of case law specify how the Indian Trust Fund assets should be managed and which financial instruments constitute appropriate investments for Indian Trust Funds. A portion of Indian Trust Funds assets are invested with financial institutions at which such deposits are covered by Federal depository insurance, or collateralized by U.S. Treasury or U.S. Government Agency securities for amounts deposited in excess of Federal depository insurance limitations. Trust funds assets are also directly invested in U.S. Government securities, including U.S. Treasury and U.S. Government Agency issues, as well as certain other securities which are guaranteed by the U.S. Government.

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The Secretary of the U.S. Treasury, the Director of the OMB and the U.S. Comptroller General have approved a hierarchy of accounting principles that constitutes an other comprehensive basis of accounting. The accounting principles and standards applied in preparing the principal financial statements and described in this note are in accordance with the following hierarchy of accounting principles:

- ◆ Statements of Federal Financial Accounting Standards (SFFAS). These statements reflect the accounting principles, standards and requirements recommended by the Federal Accounting Standards Advisory Board and agreed to by the U.S. Comptroller General, the Director of the OMB and the Secretary of the U.S. Treasury and published by OMB and the U.S. General Accounting Office,
- ◆ Interpretations related to the SFFAS's issued by OMB in accordance with the procedures outlined in OMB Circular A-134, "Financial Accounting Principles and Standards",

U.S. DEPARTMENT OF THE INTERIOR  
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS  
TRIBAL, INDIVIDUAL INDIAN MONIES AND  
OTHER SPECIAL TRUST FUNDS  
MANAGED BY THE  
OFFICE OF TRUST FUNDS MANAGEMENT

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 1996

- ◆ Form and content requirements for financial statements, as presented in OMB Bulletin No. 94-01 (Form and Content of Agency Financial Statements), and
- ◆ The accounting principles and standards contained in the DOI and OTFM accounting policy and procedures manuals and/or related guidance when such principles improve the meaningfulness of the financial statements.

The OTFM uses the cash basis of accounting for the Trust Funds; however, accrual adjustments were recorded in the accompanying financial statements as of September 30, 1996, to reflect interest and dividends earned and to record any applicable accretion of discount/amortization of premium over the terms of the investments. Investments are stated at amortized historical cost. Interest receipts reported in the Statement of Changes in Trust Fund Balances reflects the net of interest earned and amortization expense or accretion income recognized during the fiscal year. Investments have not been adjusted to reflect changes in market value, because it is the OTFM's intent and ability to generally hold these investments until maturity.

The Trust Funds account for assets held for others in a trust capacity and do not involve measurement of operations. Receipts, other than interest on invested funds, are recorded when received, because it is not practicable to measure the majority of such items prior to receipt. Accordingly, receivables other than accrued interest are not reflected in the accompanying financial statements. The accompanying financial statements include only the balances held in trust by the OST and OTFM for others and do not include (1) the account balances of the OST and OTFM (general appropriations, personnel and occupancy costs, etc.), or (2) the values of Indian lands, buildings or other non-monetary assets regardless of the source of funding (Tribal monies, Congressional appropriations, Indian Trust Fund resources, etc.).

B. Interest Receipts

Tribal Trust and Other Special Trust Funds are invested separately by account with interest recorded based on actual income from each investment. IIM Trust Funds are pooled and invested. Interest is received in two ways: (1) directly from investment securities in which the Trust Funds are placed, such as certificates of deposit at financial institutions or U.S. Treasury, Agency or U.S. government sponsored securities, or (2) from a U.S. Treasury overnight investment ("overnighter"), which earns a rate comparable to "Fed Funds" rates. The interest on the overnigher investments is calculated daily, compounded, accumulated separately for participating accounts and posted to the separate accounts monthly. Interest receipts as reflected in the Statement of Changes in Trust Fund Balances are net of amortization expense/accretion income for the fiscal year.

U.S. DEPARTMENT OF THE INTERIOR  
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS  
TRIBAL, INDIVIDUAL INDIAN MONIES AND  
OTHER SPECIAL TRUST FUNDS  
MANAGED BY THE  
OFFICE OF TRUST FUNDS MANAGEMENT

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 1996

C. Other Receipts

Approximately one-third of other receipts are payments as a result of claims and judgment awards to Tribes, Other Special Trust Funds, and Individual Indians by the U.S., State and local governments, and private entities and individuals.

Other trust receipts are generated from a variety of assets which are held in trust by the U.S. government and managed by the various Agencies and the Bureau on behalf of Tribes and Individual Indians. Payments are received from various leasing activities, mineral royalties, and sales of extracted minerals, timber and forest products. Payments are also derived from related fees and fines, and the granting of easements.

D. Disbursements

Payments disbursed to Tribes, Individual Indians and Other Special Trust Funds consist of investment income as well as funds from various income producing activities such as leasing, royalty payments, minerals extraction and timber and forest product sales. Under certain conditions, Tribes disburse per capita payments to their enrolled members from the Trust Funds. Payments are made to Tribes from the proceeds of various judgment awards. Upon submission and approval of the required Use and Distribution Plans, Tribes may submit requests for payments in accordance with terms and conditions of the awards.

P.L. 103-412 specifically allows for the voluntary withdrawal from the Trust Funds program. An Indian Tribe may submit a plan to withdraw some or all funds held in trust for the Tribe. The plan must be approved by the Secretary, DOI, and the appropriate Tribal governmental body, and must provide an indication as to the capability and experience of the individuals or institutions managing the Trust Funds.

E. Financial Statement Captions

Brief descriptions of the major captions used in the accompanying financial statements as recommended by the OMB follow:

- ♦ Non-Entity Assets - These are assets that are held by the Trust Fund but are not available to the U.S. Government.
- ◊ Intragovernmental Assets - Intragovernmental nonentity assets are claims of the Trust Fund against U.S. Governmental entities. These amounts, when collected, can be spent by the Trust Fund on behalf of beneficiaries unless otherwise restricted.
- ◊ Fund Balances with Treasury - Fund Balances with Treasury are balances on deposit, suspense and clearing accounts that are assets of the Trust Fund on behalf of beneficiaries unless otherwise restricted. All of the Fund Balances with Treasury

U.S. DEPARTMENT OF THE INTERIOR  
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS  
TRIBAL, INDIVIDUAL INDIAN MONIES AND  
OTHER SPECIAL TRUST FUNDS  
MANAGED BY THE  
OFFICE OF TRUST FUNDS MANAGEMENT

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 1996

contained in the accompanying financial statements are for Trust Funds.

- 0 Governmental Assets - Governmental nonentity assets are **claims** of the Trust Fund against nonfederal entities. These amounts, when collected, can be spent by the Trust Fund on behalf of beneficiaries unless otherwise restricted.

F. Comparative Data

Comparative data for the prior year has not been presented, because an audit of the prior year Statement of Changes in Trust Fund Balances was not performed.

NOTE 3 -- ACCOUNTING SYSTEMS AND MATERIAL INTERNAL CONTROL WEAKNESSES

The accounting systems and internal control procedures used by the OST and the OTFM have suffered from a variety of system and procedural internal control weaknesses and other problems; such as understaffed accounting operations at all levels, a lack of experienced accounting supervisors, a lack of minimum standards for key positions in the accounting process, inadequate training programs, and out-of-date accounting policies and procedures manuals. Certain of these internal control weaknesses are so pervasive and fundamental as to render certain significant accounting systems unreliable. Some of these problems are as follows:

- ◆ There is a lack of consistency in the accounting and related **procedures** being utilized OTFM-wide, which has caused accounting errors in the Indian Trust Funds. Standardized documented policies and procedures have not been instituted for some significant accounting processes, while certain others remain seriously out-of-date.
- ◆ There is inadequate segregation for many key duties, particularly in the accounting processes performed at the Area and Agency Offices.
- ◆ Records management is inconsistent and inadequate to ensure the proper filing and safekeeping of Trust Fund records to support trust financial activity.
- ◆ Internal financial statements are not prepared in accordance with OMB accounting principles and **standards**.
- ◆ Internal reporting for Trust Fund investments lacks adequate investment performance information. These financial and managerial reporting deficiencies are detrimental to the OTFM's ability to effectively manage the Trust Funds.

U.S. DEPARTMENT OF THE INTERIOR  
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS  
TRIBAL, INDIVIDUAL INDIAN MONIES AND  
OTHER SPECIAL TRUST FUNDS  
MANAGED BY THE  
OFFICE OF TRUST FUNDS MANAGEMENT

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 1996

- ♦ The IIM detailed subsidiary ledger contains certain accounts with **negative** balances aggregating approximately \$44,000,000.
- ♦ There is approximately \$142,000,000 held in suspense in more than 28,000 Special Deposit Accounts in the IIM subsidiary ledger. There are inadequate controls and a lack of management reporting and accountability over the use of these accounts.
- ♦ There is an unreconciled difference of approximately \$29,000,000 between the IIM &tailed subsidiary ledger and the corresponding general ledger control account.
- ♦ There is an unreconciled difference of approximately \$35,000,000 between the total cash balances reflected in the accompanying Statement of Assets and Trust Fund Balances and the balances held by Treasury. Treasury reports reflect balances less than OTFM balances.
- ♦ The balances reflected in the Treasury records are not maintained entirely independent of the OTFM, in that Treasury records are in part updated with information reported by the OTFM, as well as other Federal Agencies.

As a result of the material weaknesses in internal controls, certain of which are referred to above, it is not possible to determine whether cash and Trust **Fund** balances and individual categories within the Statement of Changes in Trust Fund Balances as reflected in the accompanying financial statements are fairly stated and presented.

In some instances, the OTFM has researched and corrected the balances held in trust for specific Indian Tribes, individuals, and Other Special Trust **Funds**. Many individual Tribal and IIM accounts still need to be reconciled and/or resolved through negotiation and settlement before reliance can be placed on the balances reflected in the Trust Fund accounts.

The OTFM recognizes the weaknesses noted above and is in the process of implementing several corrective measures to address them. These measures include certain organizational changes, including recent appropriations to increase staffing levels, the conversion in September 1996 to a new investment accounting system, Bolt II, and the new oversight authority of the U.S. Department of the Interior Office of the Special Trustee for American Indians, as more fully discussed in Note 7.

U.S. DEPARTMENT OF THE INTERIOR  
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS  
TRIBAL, INDIVIDUAL INDIAN MONIES AND  
OTHER SPECIAL TRUST FUNDS  
MANAGED BY THE  
OFFICE OF TRUST FUNDS MANAGEMENT

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 1996

NOTE 4 -- CASH AND OVERNIGHT INVESTMENTS

The U.S. Treasury functions as the disbursing agent for the OTFM. When Treasury checks are written by the OTFM, the amounts are deducted from the Indian Trust Funds, regardless of when (and whether) the checks written are eventually negotiated by payees. Starting with fiscal year ending September 30, 1992, Treasury checks are only negotiable for one year from the date of issuance and the OTFM receives credit, and credits back to the appropriate account holders, amounts which are not negotiated. Cash balances consist of cash deposits to Treasury between the cut-off time for-overnight investment, 1:00 p.m., and the end of the business day. However, amounts on hand at the Area and Agency Offices waiting for deposit to Treasury are not included.

overnight investments consist of available cash invested with Treasury.

NOTE 5 -- INVESTMENTS

Investments are recorded at cost adjusted for accumulated amortization of premiums and accretion of discounts utilizing the effective interest method.

The Trust Fund assets have a concentration of credit risk in U.S. Government securities.

Certificates of Deposit

Following is an analysis of depository insurance and collateral on certificates of deposit at September 30, 1996:

Deposits covered by depository insurance	\$ 6,222,785
Deposits covered by securities pledged as collateral	<u>27,603,390</u>
Total certificates of deposit	<u>\$ 33,826,175</u>

U.S. DEPARTMENT OF THE INTERIOR  
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS  
TRIBAL, INDIVIDUAL INDIAN MONIES AND  
OTHER SPECIAL TRUST FUNDS  
MANAGED BY THE  
OFFICE OF TRUST FUNDS MANAGEMENT  
  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 1996

Maturities

Investments with scheduled maturities at September 30, 1996, are as follows:

Amortized cost

	Tribal Trust	Individual Indian Monies	Other Special Trust Funds	Combined Total
Government backed securities:				
Less than 1 Year	\$ 272,905,963	\$	\$ 8,311,039	\$ 281,217,002
1 - 5 Years	670,477,631	29,051,449	12,010,445	711,539,525
5 - 10 Years	704,483,932	222,574,123	11,240,362	938,298,417
Greater than 10 Years	<u>177,532,692</u>	<u>130,269,872</u>	<u>12,482,928</u>	<u>320,285,492</u>
	1,825,400,218	381,895,444	44,044,774	2,251,340,436
Certificates of Deposit:				
Less than 1 Year	29,350,230			29,350,230
1 - 5 Years	4,379,945	96,000		4,475,945
5 - 10 Years				
Greater than 10 Years	<u>33,730,175</u>	<u>96,000</u>	<u></u>	<u>33,826,175</u>
Equities with no scheduled maturities	12,657,000	5,000,000		17,657,000
Mortgage backed securities with varying maturities	<u>144,165,610</u>	<u>107,638,147</u>	<u></u>	<u>251,803,757</u>
	<u>\$ 2,015,953,003</u>	<u>\$ 494,629,591</u>	<u>\$ 44,044,774</u>	<u>\$ 2,554,627,368</u>

U.S. DEPARTMENT OF THE INTERIOR  
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS  
TRIBAL, INDIVIDUAL INDIAN MONIES AND  
OTHER SPECIAL TRUST FUNDS  
MANAGED BY THE  
OFFICE OF TRUST FUNDS MANAGEMENT

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 1996

Maturities

Investments with scheduled maturities at September 30, 1996, are as follows:

Fair Market Value

	Tribal Trust	Individual Indian Monies	Other Special Trust Funds	Combined Total
Government backed securities:				
Less than 1 Year	\$ 274,549,966	\$	\$ 8,318,125	\$ 282,868,091
1 - 5 Years	662,441,068	29,178,810	12,084,751	703,704,629
5 - 10 Years	697,361,761	217,388,611	11,618,861	926,369,233
Greater than 10 Years	180,995,755	125,287,587	13,195,302	319,478,644
	<u>1,815,348,550</u>	<u>371,855,008</u>	<u>45,217,039</u>	<u>2,232,420,597</u>
Certificates of Deposit:				
Less than 1 Year	29,350,228			29,350,228
1 - 5 Years	4,379,945	96,000		4,475,945
5 - 10 Years				
Greater than 10 Years				
	<u>33,730,173</u>	<u>96,000</u>		<u>33,826,173</u>
Equities with no scheduled maturities	12,690,528	5,150,000		17,840,528
Mortgage backed securities with varying maturities	143,480,589	105,951,578		249,432,167
	<u>\$ 2,005,249,840</u>	<u>\$ 483,052,586</u>	<u>\$ 45,217,039</u>	<u>\$ 2,533,519,465</u>

U.S. DEPARTMENT OF THE INTERIOR  
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS  
TRIBAL, INDIVIDUAL INDIAN MONIES AND  
OTHER SPECIAL TRUST FUNDS  
MANAGED BY THE  
OFFICE OF TRUST FUNDS MANAGEMENT

NOTES TO THE FIANCIAL STATEMENTS  
SEPTEMBER 30, 1996

The original cost, net accumulated amortization and accretion, amortized cost and market value of the investments held at September 30, 1996, are as follows:

<u>Tribal</u>		Net Accumulated (Amortization)/ Accretion			Market Value	
<u>Investment Class</u>	<u>cost</u>			<u>Amortized cost</u>		
Certificates of deposit	\$ 33,730,175	\$		\$ 33,730,175	\$	33,730,173
Equity securities	12,657,000			12,657,000		12,690,528
Government backed securities	1,794,117,538	31,282,680		1,825,400,218		1,815,348,550
Mortgaged backed securities	142,812,710	1,352,900		144,165,610		143,480,589
	<u>\$ 1,983,317,423</u>	<u>\$ 32,635,580</u>		<u>\$ 2,015,953,003</u>		<u>\$ 2,005,249,840</u>

<u>Individual Indian Monies</u>		Net Accumulated (Amortization)/ Accretion			Market Value	
<u>Investment Class</u>	<u>cost</u>			<u>Amortized cost</u>		
Certificates of deposit	\$ 96,000	\$		\$ 96,000	\$	96,000
Equity securities	5,000,000			5,000,000		5,150,000
Government backed securities	373,165,878	8,729,566		381,895,444		371,855,008
Mortgaged backed securities	106,751,203	886,944		107,638,147		105,951,578
	<u>\$ 485,013,081</u>	<u>\$ 9,616,510</u>		<u>\$ 494,629,591</u>		<u>\$ 483,052,586</u>

<u>Other Special Trust Funds</u>		Net Accumulated (Amortization)/ Accretion			Market Value	
<u>Investment Class</u>	<u>cost</u>			<u>Amortized cost</u>		
Certificates of deposit	\$	\$		\$	\$	
Equity securities						
Government backed securities	43,936,429	108,345		44,044,774		45,217,039
Mortgage backed securities	<u>\$ 43,936,429</u>	<u>\$ 108,345</u>		<u>\$ 44,044,774</u>		<u>\$ 45,217,039</u>

U.S. DEPARTMENT OF THE INTERIOR  
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS  
TRIBAL, INDIVIDUAL INDIAN MONIES AND  
OTHER SPECIAL TRUST FUNDS  
MANAGED BY THE  
OFFICE OF TRUST FUNDS MANAGEMENT

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 1996

NOTE 6 -- COMMITMENTS AND CONTINGENCIES

The Secretary has been designated by U.S. Congress as the fiduciary with responsibility for investing resources held in trust, collecting all monies due from outside individuals/organizations for the use of Indian lands and the extraction of natural resources from Indian lands, and disbursing such monies collected to the appropriate beneficiaries.

Tribal organizations and classes of Indian individuals have filed various claims against the United States for failure to fulfill its fiduciary responsibilities and for related charges. Neither the OTFM nor the Office of the Solicitor for the U.S. Department of the Interior can presently determine the outcome of these actions or the total amount, responsibility and funding source of the potential liability.

Any actual liabilities resulting from adverse outcomes of the contingencies described above are generally expected to be satisfied with U.S. Government funds, and not assets of the Trust Fund. No amounts have been accrued in the accompanying Trust Fund financial statements for potential claims receivable from the U.S. Government.

NOTE 7 -- REALIGNMENT UNDER THE OFFICE OF THE SPECIAL TRUSTEE

On February 9, 1996, Secretarial Order 3197 ("the Order") implemented the OST, which was established by the P.L. 103-412. The Order also transferred the OTFM, and financial trust services performed at Bureau Area and Agency Offices, from the Bureau to the OST.

NOTE 8 -- TRUST FUND BALANCES

A number of the beneficiaries for whom the OTFM holds assets in trust do not receive adequate information to determine whether their account balances reflected in the OTFM's records are proper.

A significant number of IIM accounts and balances are held for the benefit of minors and other individuals who have been determined by the Bureau to require assistance in managing their trust account activities and balances. It is the practice of the OTFM to not forward statements to minors and other IIM account holders with supervised accounts. The Secretary, DOI, or his authorized representative (typically, Agency Superintendents) must approve withdrawals from these accounts. In addition, some IIM account holders have not furnished the OTFM their addresses which would allow the OTFM to forward their account statements. Accordingly, certain account holders do not, or are unable to, agree with the balances reflected in their accounts.

A portion of the monies held in the IIM Trust Fund have not been allocated and distributed by the OTFM because the ultimate account holders are not known. Also, included in the Tribal Trust Funds are balances not identified to specific Tribes

U.S. DEPARTMENT OF THE INTERIOR  
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS  
TRIBAL, INDIVIDUAL INDIAN MONIES AND  
OTHER SPECIAL TRUST FUNDS  
MANAGED BY THE  
OFFICE OF TRUST FUNDS MANAGEMENT

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 1996

because judgment awards were granted to several Indian Tribes in a particular geographic area for settlement of claims related to certain lands. Because such amounts were not awarded to a specific Tribe or individual, there is no independent party (independent of the OTFM) to determine the ownership of these account balances.

Unallocated Balances, Net

The net unallocated balances for the IIM Trust Fund balances, consisting of cumulative differences between Omni and subsidiary detail of account holders' balances and activity ("IRMS System") totaled approximately \$29,000,000 as of September 30, 1996.

NOTE 9 -- SIGNIFICANT TRANSACTIONS WITH OTHER U.S. GOVERNMENT ORGANIZATIONS

Debt Arrangements

The Bureau is a party to various note payable agreements. These agreements are primarily between the Indian Tribes and the U.S. Department of Agriculture Farmers Home Administration ("FmHA") or the U.S. Department of Commerce Economic Development Administration ("EDA"). The proceeds of the FmHA loans are used by Indian Tribes to repurchase fractional ownership interests in allotted lands from individual Indians.

The receipts from the acquired ownership interests are deposited into "Special Deposit" accounts in the IIM Trust Fund, and principal and interest payments are made from these accounts. EDA loans are utilized for construction of Tribal facilities (governmental/administrative buildings, and facilities for enterprise activities such as manufacturing, hotel/motel facilities, etc.). Individual Tribes are primarily liable for repayment of these loans, however, Trust Funds are utilized for payment of these loans.

Minerals Management Services

The OTFM receives royalty payments from the U.S. Department of the Interior Minerals Management Service ("MMS") on behalf of Indian Tribes and individuals holding mineral rights. MMS generally transfers the royalty payments to the OTFM upon receipt. At the time the royalty payments are received, MMS also provides the OTFM with a breakdown of the Tribal royalties, thus permitting the OTFM to allocate the receipts directly into Tribal accounts. However, MMS does not provide the OTFM with ownership information for IIM account holders until several weeks after the related royalty payments are received. Accordingly, the OTFM holds the royalty receipts until it receives information on how the royalties are to be allocated. Upon receipt of the IIM account holders royalty ownership data from MMS, the royalty receipts are distributed. IIM account royalty payments are then either paid by check or held in IIM accounts until account holders wish to make a withdrawal. MMS and the DOI Bureau

U.S. DEPARTMENT OF THE INTERIOR  
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS  
TRIBAL, INDIVIDUAL INDIAN MONIES AND  
OTHER SPECIAL TRUST FUNDS  
MANAGED BY THE  
OFFICE OF TRUST FUNDS MANAGEMENT

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 1996

of Land Management both perform verification and other monitoring procedures of mineral royalties collected.

Overpayments are sometimes made by private companies to MMS. These are first paid to the OTFM on behalf of Indian Tribes and individuals, and then disbursed by the OTFM to the beneficiaries. The overpayments generally result from payments being made based on estimated mineral production, in order to comply with the Federal Oil and Gas Royalty Management Act of 1982 which requires timely distribution of royalties. Typically, such overpayments are recovered by the private companies by adjusting future payments. The amount of such overpayments as of September 30, 1996, have not been quantified.

Other

As discussed in Note 4, the Treasury holds cash and overnight investments and acts as a disbursing agent for the OTFM. As discussed in Note 6, the DOI Office of the Solicitor serves as legal counsel for the OST and OTFM.

NOTE 10 -- IMPLEMENTATION OF A NEW INVESTMENT ACCOUNTING SYSTEM

The OTFM began utilizing an additional trust investment accounting system ("Bolt II") as of September 30, 1996. The existing OmniTrust system is not capable of calculating investment values based on the effective yield method that is required for mortgaged backed securities by Statement of Financial Accounting Standards No. 91 ("SFAS 91"). Bolt II performs this function by amortizing and/or accreting the investment portfolio on a monthly basis. The OTFM will continue to use OmniTrust for recording and maintaining activity, as well as reporting to Tribal beneficiaries. Bolt II will be used for financial reporting purposes.

NOTE 11 -- TRANSFERS

The OTFM receives monies into IIM special deposit accounts for both Tribal and IIM beneficiaries. Tribal funds are subsequently transferred from the IIM system to the appropriate Tribal account. The other receipts category of the Statement of Changes in Trust Fund Balances reflects net transfers.

U.S. DEPARTMENT OF THE INTERIOR  
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS  
TRIBAL, INDIVIDUAL INDIAN MONIES AND  
OTHER SPECIAL APPROPRIATION FUNDS  
MANAGED BY THE  
OFFICE OF TRUST FUNDS MANAGEMENT  
SUPPLEMENTARY COMBINING SCHEDULES

SEPTEMBER 30, 1996

U.S. DEPARTMENT OF THE INTERIOR  
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS  
TRIBAL, INDIVIDUAL INDIAN MONIES AND  
OTHER SPECIAL TRUST FUNDS  
MANAGED BY THE  
OFFICE OF TRUST FUNDS MANAGEMENT

SUPPLEMENTARY COMBINING  
SCHEDULE OF ASSETS AND TRUST FUND BALANCES  
SEPTEMBER 30, 1996

	Tribal Trust	Individual Indian Monies	Other Special Trust Funds	Combined Total
<b>ASSETS</b>				
Non-Entity assets:				
Intragovernmental assets:				
Fund balance with				
Treasury (Note 4):				
Cash	\$ 883,709	\$ 2,946,062	\$ (52,875)	\$ 3,776,896
Investments (Note 5):				
Overnight investments	209,694,282	13,647,497	731,602	224,073,381
Gove-tbacked securities	1,825,400,218	381,895,444	44,044,774	2,251,340,436
Accrued interest receivable	24,166,128	4,917,761	783,280	29,867,169
Governmental assets:				
Investments (Note 5):				
Certificates of deposit	33,730,175	96,000		33,826,175
Equity securities	12,657,000	5,000,000		17,657,000
Mortgage backed securities	144,165,610	107,638,147		251,803,757
Accrued interest receivable	1,648,143	620,773		2,268,916
Total assets	<u>\$ 2,252,345,265</u>	<u>\$ 516,761,684</u>	<u>\$ 45,506,781</u>	<u>\$ 2,814,613,730</u>
TRUST FUND BALANCES, held for Indian Tribes, individual Indians and Other Special Trust Funds (Note 8)	<u>\$ 2,252,345,265</u>	<u>\$ 516,761,684</u>	<u>\$ 45,506,781</u>	<u>\$ 2,814,613,730</u>

The accompanying notes are an integral part of this schedule.

U.S. DEPARTMENT OF THE INTERIOR  
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS  
TRIBAL, INDIVIDUAL INDIAN MONIES AND  
OTHER SPECIAL TRUST FUNDS  
MANAGED BY THE  
OFFICE OF TRUST FUNDS MANAGEMENT

**SUPPLEMENTARY COMBINING**  
**SCHEDULE OF CHANGES IN TRUST FUND BALANCES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 1996**

	Tribal Trust	Individual Indian Monies	Other Special Trust Funds	combined Total
<b>RECEIPTS:</b>				
Interest and dividends earned on invested funds (Note 2):				
Intragovernmental assets	\$ 138,782,074	\$ 25,666,269	\$ 3,139,824	\$ 167,588,167
Governmental assets	15,239,342	10,796,905		26,036,247
Gains on disposition of investments:				
Intragovernmental assets	15,971,870	765,762	7,343	16,744,975
Governmental assets	239,881	540,000		779,881
Other Receipts (Note 2C)	<u>337,390,651</u>	<u>267,446,684</u>	<u>10,644</u>	<u>604,847,979</u>
	507,623,818	305,215,620	3,157,811	815,997,249
<b>DISBURSEMENTS:</b>				
Payments to and on behalf of Indian Tribes, individual Indians and Other Special Trust Funds (Note 2D)	(334,711,283)	(291,943,757)	(148,904)	(626,803,944)
Withdrawal of trust fund assets by Tribes	<u>(46,030,695)</u>	<u>                    </u>	<u>                    </u>	<u>(46,030,695)</u>
Receipts in excess of disbursements	126,881,840	13,271,863	3,008,907	143,162,610
<b>TRUST FUND BALANCES, beginning of year</b>	1,851,964,587	503,489,821	315,996,712	2,671,451,120
Trust fund balances reclassified (Note 1)	<u>273,498,838</u>	<u>                    </u>	<u>(273,498,838)</u>	<u>                    </u>
<b>TRUST FUND BALANCES, end of year (Note 8)</b>	<u>\$2,252,345,265</u>	<u>\$516,761,684</u>	<u>\$ 45,506,781</u>	<u>\$2,814,613,730</u>

The accompanying notes are an integral part of these schedules.

U.S. DEPARTMENT OF THE INTERIOR  
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS  
TRIBAL, INDIVIDUAL INDIAN MONIES AND  
OTHER SPECIAL TRUST FUNDS  
MANAGED BY THE  
OFFICE OF TRUST FUNDS MANAGEMENT

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON INTERNAL  
CONTROL STRUCTURE

SEPTEMBER 30, 1996

# GRIFFIN & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

DAN D. GRIFFIN

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## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON INTERNAL CONTROL STRUCTURE

To the U.S. Department of the Interior  
Office of the Special Trustee for American Indians:

We have audited the Statement of Assets and Trust Fund Balances and the related Statement of Changes in Trust Fund Balances for the Tribal, Individual Indian Monies ("IIM") and Other Special Trust Funds managed by the U.S. Department of the Interior Office of the Special Trustee for American Indians ("OST") Office of Trust Funds Management ("OTFM") as of and for the year ended September 30, 1996, and have issued our report thereon dated January 17, 1997.

We conducted our audit in accordance with generally accepted auditing standards, the standards for financial audits contained in *Government Auditing Standards* (1994 Revision) issued by the Comptroller General of the United States and Office of Management and Budget ("OMB") Bulletin Number 93-06, "Audit Requirements for Federal Financial Statements." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the OTFM is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the comprehensive basis of accounting described in OMB Bulletin Number 94-01, "Form and Content of Agency Financial Statements? Also, projection of any evaluation of the internal control structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the Statement of Assets and Trust Fund Balances and the related Statement of Changes in Trust Fund Balances for the Tribal, IIM and Other Special Trust Funds managed by the OTF'M as of and for the year ended September 30, 1996, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing an opinion on the Statement of Assets and Trust Fund Balances and the related Statement of Changes in Trust Fund Balances and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion. Also, in accordance with OMB Bulletin Number 93-06, for those significant internal control structure policies and procedures that were properly designed and placed in operation, we performed tests to determine whether such policies and procedures were operating effectively at September 30, 1996.

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Members of the American Institute of Certified Public Accountants

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants and OMB Bulletin Number 93-06. These matters are described in the "Reportable Conditions" section of this report. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control structure that, in our judgment, could adversely affect OTFM's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. These matters are described in the "Material Weakness" section of this report.

We also noted other matters involving the internal control structure and its operation as well as certain other advisory comments which we did not consider to be reportable conditions. These comments are set forth in the "Other Advisory Comments" section of this report.

In the Report of Independent Public Accountants on Internal Control Structure for the year ended September 30, 1995, we noted matters involving the internal control structure and its operation that we considered to be reportable conditions as well as other advisory comments. The disposition of these matters is set forth in the sections of this report denoted as "Prior Year."

### Material Weaknesses

#### Inadequate Internal Financial Reporting (17)

In performing our tests related to the trust fund balances, we noted that the OTFM could not produce a ready analysis of the changes in cumulative trust fund balances. The resulting Statement of Changes in Trust Fund Balances is a compilation of information derived from three different sources, including OmniTrust data, IIM system data, and manually prepared investment amortization and accretion schedules.

The OTFM does not produce internal consolidated trust fund financial reports or statements in accordance with OMB. Financial reporting prepared for management's review contained no Statement of Assets and Trust Fund Balances or Statement of Changes in Trust Fund Balances other than those produced as a part of the annual audited financial statements.

The Statement of Changes in Trust Fund Balances is a generally accepted financial report that provides an analysis of periodic receipt and disbursement activity by source, and, in essence, represents a summary reconciliation of beneficiary accounts at the highest consolidated level.

Recommendation (17): We recommend the OTFM implement at least quarterly internal financial reporting which includes a consolidated Statement of Assets and Trust Fund Balances and a Statement of Changes in Trust Fund Balances. As part of an analysis of systems requirements, the OTFM should consider implementation of a general ledger and financial reporting package that provides a comprehensive, integrated process to accumulate the financial data required for ease of compliance with federal reporting requirements. Ideally, such a system would be integrated with trust system which adequately address the needs of accounting for the trust assets and activity on behalf of both Tribes and Individual Indians

With the release of Federal Accounting Standards Advisory Board Interpretation Number One, there is some question whether reporting requirements under the CFO Act and OMB 94-01 are applicable to the Indian Trust Funds for years ending in 1997 and thereafter.

Client Response (17): The OmniTrust system provides a consolidated Statement of Condition on a daily basis that shows Asset and Liability balances. Asset balances are reflected by type of securities held and cash. The liability balance shows the total amount due to account holders.

OTFM plans to compile a Statement of Changes in Trust Fund Balance for fiscal year 1997.

Area and Agency Offices - Unauthorized Transactions (18)

As part of our receipts and disbursements testing, we reviewed disbursement transactions for proper approvals, in accordance with 25 Code of Federal Regulations ("CFR"), Secretarial Order 3177, and Secretarial Order 3197 (for transactions subsequent to February 9, 1996).

In our sample, we noted that three Tribal disbursement transactions from the IIM subsidiary system totaling \$850,000 were not approved by Bureau personnel. These were disbursed prior to the February 9, 1996 Secretarial Order 3177 which changed policies and procedures relating to disbursement approvals. Also, for two transactions totaling \$70,640, documentation supporting beneficiary approval of disbursements to third parties was not provided.

OTFM and Bureau policies and procedures require an appropriate approval be obtained prior to funding tribal disbursements. Without proper approvals, the OTFM may be inappropriately disbursing trust assets. An approval signature indicates that a disbursement has been reviewed and is appropriate based on supporting documentation. Lack of documented approval indicates that these steps may or may not have occurred. Inadequate documentation of approvals may also expose the OTFM to a potential breach of fiduciary responsibility.

Recommendation (18): We recommend that the OTFM enforce policies and procedures with regard to appropriate approval of disbursements as documented by proper signatures for disbursement transactions and as directed by regulation and secretarial order.

Client Response (18): The OTFM has shared the above finding with the Bureau of Indian Affairs.

## Area and Agency Offices - Ineffective Implementation of Policies & Procedures (19)

As part of our audit related to receipts and disbursements transactions, we reviewed prior year internal control questionnaire responses, conducted telephone interviews with Area and Agency staff, and visited Area and Agency offices. It was noted that while authority to supervise financial trust accounting personnel was delegated to the OTFM in February 1996, particular trust functions, i.e., collections, are performed by non OTFM staff, over which, the OTFM has no control nor authority. As a result, there is an inability to implement existing policies and procedures pertaining to those functions. The following OTFM policies and procedures are inadequately implemented, or are not implemented at Area and Agency offices.

Further, the OTFM and the Bureau continue to be hampered by a lack of adequate information systems to support various trust related activities, including land inventory systems, lease management systems, ownership systems, accounts receivable and an adequate trust accounting system for IIM.

### AREA AND AGENCY OFFICE INTERNAL CONTROL WEAKNESSES

- Administrative review of the collection process have not been performed within the last year.
- Collections are not processed by Authorized Collectors.
- Incoming mail is opened and receipts are listed by a person having access to cash receipts.
- Cash receipts are entered in books of original entry by the same person who opens mail and lists cash receipts.
- Daily deposits are not reconciled to Schedules of Collection.
- The BIAM 42, Illustration 15, Quarterly Collection Review Worksheets are not completed.
- The Collections Officer is the only individual with the combination to the safe or the combination is not located in a sealed envelope with a third party.
- The Authorized Collector does not have an alternate to perform the function in their absence.
- The Agency does not have and follow the BIAM 42.
- The IIM teller does not have a Desk Operating Procedure Manual to follow.
- Administrative review by the Area Accounting Officer or Trust Officer are not performed on the disbursing function.
- Receipts are not mailed to the Area Office for deposit on a daily basis.
- When an employee with knowledge of the combination to the safe leaves his/her position, the combination to the safe is not changed.

- Effective control is not provided over miscellaneous receipts when received at the Area office.
- Funds are disbursed via Journal Vouchers prior to the funds being deposited.
- The key to the cabinet containing the blank check stock is located in the same safe as the signature plate.
- The inventory of the blank check stock is not always performed by an individual independent of the disbursing function or is not performed at regular intervals.
- Collection and disbursing functions are performed by the same individual.
- The IIM teller, Realty Officer, etc., do not have a trained backup to perform their duties in their absence.
- There is inadequate documentation to support IIM account holds.
- a There is inadequate control problems over cash received.
- The PCIRMS system, also known as the Management Accounting Distribution ("MAD") system, does not have a built in control to stop duplicate disbursements.

While the OTFM continues to work towards providing improved regulatory guidance, policies and procedures, consistent implementation of existing guidelines has not been achieved due to the decentralized nature of OTFM operations, lack of personnel, lack of authority over certain trust functions related to OTFM operations and inadequate information systems.

Recommendation (19): We recommend the OTFM consider alternatives, such as restructuring trust accounting responsibilities at Agency offices which do not maintain OTFM staff positions by centralizing and streamlining transaction processing within Area or Agency offices with sufficient OTFM personnel. We do not suggest that OTFM eliminate the presence of accounting technicians and support personnel at Agency offices, since these individuals perform other valuable services for account holders.

The use of either a centralized or decentralized lockbox would eliminate some of the most serious control deficiencies by eliminating the handling of physical cash receipts at Agency offices. However, the ability to maximize cash receipt processing via a lockbox is also dependent upon the OTFM and Bureau's ability to obtain updated information systems that would support an automated collections and income allocation process. We recommend the OTFM consider implementing lockbox processing in a staged process, and consideration of these requirements be addressed as part of a comprehensive automation review.

Client Response (19):

Since the signing of Secretarial Order 3197 the OTFM has been put into a position where it can take an aggressive approach to addressing the issues of "Ineffective

Implementation of Policies and Procedures" and "Internal Control Weaknesses? This is evidenced by the following corrective actions already in progress.

The first corrective action was the signing of Secretarial Order 3197. This empowered the OST with direct line authority over OTF'M central office staff and, Area and Agency financial trust staff. The delegation of this authority over Area and Agency financial trust staff from the OST to the Director OTFM has resulted in the development of policies and procedures from a focal point that can provide standardization and monitoring functions to insure compliance. This is unlike the oversight that was previously provided by 12 independent Area offices. It now is possible to ensure that there is one program mission and not 12 different program missions.

One corrective action was started during fiscal year 1996. This was the establishment of lock boxes at the Palm Springs and Standing Rock Agencies. Since these first two projects the OTF'M, Branch of Policies and Procedures has compiled procedures outlining how lock boxes are to be setup. These procedures coupled with the proper monitoring will ensure standardization and the implementation of the proper controls to provide accountability.

The OTFM has initiated a plan for the implementation of a nation wide lock box program for the collection of tribal and individual Indian trust funds. The plan starts with the implementation of lock box's at the Area and Agency Offices where the highest volume of tribal and individual Indian trust funds are collected. Lock boxes are planned to be established on a regional basis and in stages to ensure that the lock boxes are established in accordance with policies, procedures, and that the necessary controls are in place. The timely implementation of a nation wide lock box program will be dependent upon the availability of appropriated funds to implement the program. If appropriate funding is provided, it is projected that a nation wide lock program would be fully operational by the end of fiscal year 1998.

Lock boxes will address the issue of lack of adequate financial trust personnel at the Area and Agency level to provide for separation of duties. Lock boxes will also provide better cash management controls.

Another corrective action, was the establishment of the Division of Field Operations and the selection of a Division chief. This Division was established to provide supervision, and direction to the (approximately 176) Area and Agency financial trust personnel, and is responsible for coordinating the administrative and technical execution of financial trust programs conducted at Area and Agency offices. A February 25, 1997 DOI Manual release moves the OTFM to the Office of the Secretary, Part 110 DM 28 and recognizes the Division of Field Operations.

In accordance with the recommendations of the Special Trustee's strategic plan, the OTFM will be implementing procedures and system changes that will ensure Area and Agency financial trust staff are being utilized efficiently and effectively. One consideration is the performance of accounting functions from one location. The Special Trustee's strategic plan calls for one comprehensive system to account for and manage all tribal and individual Indian trust resources. It is envisioned that this comprehensive trust system and the accounting functions will be performed and controlled from one location. This will allow current Area and Agency financial trust personnel to devote 100% of their time to account holder services. Area and Agency personnel will no longer have to delay providing an account holder service, in order to post accounting information to the trust system. The processing of accounting information from one location provides management with the means to

protect the integrity of the accounting information being generated by ensuring separation of duties for accounting functions.

The Special Trustee's strategic plan also calls for the **implementation** of updated policies and procedures. It **must** be noted that some of the policies and procedures that currently dictate the management of trust funds are as old as thirty years. Fiscal year 1996 is the first year that the OTFM has been provided funding to start this **mammoth** effort of developing new policies and procedures. The OTFM is currently drafting a statement of work for a contract that seeks assistance of an outside contractor to help with the development of policies and procedures. **This** contract will be awarded during fiscal year 1997. The **compliance** with new policies and procedures will be routinely reviewed by the Branches of Field and Internal Review. The implementation and routine monitoring of new policies and procedures will go a long way in addressing the various internal control weaknesses outlined in this report.

As you can see from the various initiatives under way the OTFM has taken a vigorous and aggressive approach to addressing outdated policies and procedures, and internal control weaknesses. It must be noted that these conditions did not develop overnight and unfortunately they can not be corrected overnight.

The OTFM has shared the above finding with the Bureau of Indian Affairs.

#### Reportable Conditions

##### Cash - Failure to Analyze Suspense Accounts (20)

An analysis of the items which comprise several U.S. Treasury ("the Treasury") suspense and budget clearing accounts has not been **completed**. Therefore, the OTFM's current procedures for researching and proposing adjustments to the cash out of balance condition do not consider whether an offset may already exist within one of these account balances. Funds to cover the adjustments may be in a Treasury suspense or budget clearing account because the original transaction may not have been reported to Treasury, and a Statement of Difference was created. If the Statement of Difference was not resolved, the transaction amount was transferred to one of the Treasury suspense or budget clearing accounts. The Treasury suspense and budget clearing account balances at September 30, 1996, are approximately \$100,500; (\$3,378,000); \$5,957,000; and \$3,310,000.

As a result, the resolution of reconciling items between the U.S. Treasury and the OTFM may be incorrect without consideration given to the items which comprise prior period suspense balances.

Recommendation (20): We recommend an analysis of Treasury suspense and budget clearing accounts be undertaken to determine the specific items co-rising the balances. The OTFM should consider adopting procedures which include a review of the items which comprise these account balances prior to proposing and recording prior period adjustments. Any adjustments currently identified as a reconciling item could then be appropriately recorded. Implementing the recommendation would identify the adjustment to the proper variance or out of balance condition and eliminate any potential duplicating items.

Client Response (20): Reconciliations have been **performed** by OTFM Agency Location Codes (ALC) back to October 1992. Differences between the general ledger and Treasury remaining in the suspense accounts are for the period September 1992 and

prior. Further research on IIM variances is being performed by the Branch of Past Reconciliations.

IIM variance accounts and other balances are likely to remain out of balance until the U.S. Government and the beneficiaries reach a resolution regarding past activities and balances.

#### Cash - Lack of Supporting Documentation Prior to Recording Transactions (21)

Various prior period adjustments have been recorded to the IIM subsidiary system without adequate documentation. Since the appropriate adjustment has not been researched and supported, the items have not been recorded to the OmniTrust system control account for IIM. The adjustments are recognized as new reconciling items in the Daily Cash Reconciliation. A number of these items have existed for a lengthy period of time, but, as yet, the items have not been sufficiently researched so that they may be resolved. As of the end of field work, documents have not been received for approximately 39 line items.

These items represent, in many cases, cash disbursement transactions that have occurred at the IIM subsidiary system level. The potential to create cash transactions without proper substantiation exposes the OTFM to the risk of creating uncollectible overdrafts if the transaction was not properly supported and should be reversed. Also, it is generally more difficult to resolve reconciling items as the items age.

Recommendation (21): The OTFM should follow-up on the results of the established deadline for providing documentation. The OTFM should also supervise and monitor progress to ensure timely completion of assigned tasks. If necessary, the OTFM should evaluate and consider providing more resources to accomplish the task. We have noted the OTFM has subsequently established procedures to ensure adjustments are now appropriately documented prior to being recorded in the IIM or OmniTrust system. By enforcing their new procedures, the OTFM will improve control over posting of adjustments and reduce the risks of recording unsubstantiated adjustments to beneficiary accounts and the OmniTrust system.

Client Response (21): The OTFM has procedures in draft form to ensure that proposed adjustments are administratively reviewed and documented prior to being recorded. Further, a directive has been issued to Field personnel not to post prior period adjustments to the IIM subsidiary system.

#### Investments - Lack of Reliable IIM Balance Available for Investing (22)

The amount invested on behalf of IIM account holders is based on the OmniTrust system IIM control account balance. The balance per OmniTrust does not agree to the balance per the IIM subsidiary ledger. The OmniTrust control account for IIM exceeds the IIM subsidiary ledger by approximately \$29,000,000. At this point in time, it can not be determined which system has an accurate balance. Consequently, the OTFM may be over or under-investing, because the underlying balance is unreliable.

Recommendation (22): The OTFM can not invest for IIM account holders appropriately until they can determine a reliable account balance. The OTFM should analyze and research the out of balance condition. Since the condition is the result of years of errors, resolution in this manner may not be practical. If necessary, the OTFM

should investigate the possibility of negotiations **between** the account holders, the Treasury and themselves to resolve the issue.

Client Response (22): The OTFM is currently in the process of researching the variance between the IIM control account and the IIM subsidiary accounts where economically feasible. The **impact** of the negative balances and variances on the IIM pool earnings cannot be quantified until the research is **complete** and other arrangements are made to resolve the matter. The OTFM is working on several IIM reform initiatives. The initiatives include a massive IIM system review and data clean up in preparation for a conversion to a new IIM system.

The balances are likely to remain out of balance until the U.S. **Government** and the beneficiaries reach a resolution regarding past activities and balances.

#### Investments - Accounting System Calculation Errors (23)

The OTFM contracted with SunGard Systems to utilize its Bolt II investment accounting system to satisfy financial reporting requirements and appropriately calculate and record amortization/accretion of investment discounts or premium<sup>8</sup> in accordance with generally accepted accounting principles. Several computational errors and/or limitations of the Bolt II investment accounting system relating to amortization/accretion of investment premiums and discounts were noted.

- ♦ The Bolt II system did not calculate any accretion/amortization of premiums or discounts for the accrual classes ("**Z-tranche**") of Collateralized Mortgage Obligation ("**CMO**") securities which were still in the accrual phase with the cash flow table method. In discussion with Bolt II personnel, this problem was attributed to a **programming** error. Based upon calculations provided by OTFM, net result of this error is an understatement of premium accretion in the amount of \$215,870.
- ♦ Values for **Z-tranche** holdings were inaccurately converted to the Bolt II system due to incorrect manual postings in the **OmniTrust** system. This issue, combined with the accretion error, produced incorrect Bolt II system values.
- ♦ The Bolt II system was unable to produce accurate amortization of **CMO's** with par values less than \$100,000 due to a programming error. The Bolt II system fully accreted these securities as of September 30, 1996, although these securities had not yet been fully paid down, called or matured. The premiums associated with these securities totaled \$12,952.
- ♦ The cash flow table assumptions for **three** asset backed securities were not accurate due to Bolt II system **programming** errors. When Bolt II system values were **compared** to manually computed values, these investments were under-accreted \$476,734.

The cumulative effect of these errors is an under-accretion of \$679,642. These errors affect the accuracy of financial reporting to individual account holders.

Recommendation (23) : The OTFM contracted with SunGard Systems to utilize the Bolt II system and personnel to perform services for the entire portfolio and should work to correct the errors. Until these **programming** errors are resolved, any new securities with these characteristics will not receive proper accounting **treatment**.

The OTFM should continue to follow up with the Bolt II system personnel to **resolve** these errors. If the OTFM provides information to beneficiaries regarding their individual portfolios at amortized value, these errors should be properly disclosed and taken into consideration by OTFM personnel prior to distribution of such information to account holders.

With the release of Federal Accounting Standards Advisory Board Interpretation Number One, there is some question whether accounting and reporting requirements **under** the CFO Act and OMB 94-01 are applicable to the Indian Trust Funds for years ending in 1997 and thereafter.

Client Response (23): The auditors utilized Bolt II reports that were generated by the initial **implementation** run of OTFM's security inventory on the Bolt II system (released early due to the time constraints of the audit). As errors were identified, OTFM corrected them, or routed them to Bolt II for programming changes. Bolt II has agreed to make the **programming** changes. In addition, the OTFM is in the process of reviewing all data in the Bolt II system to ensure that all securities are properly setup, and that the Bolt II system is properly accounting **for** the different security types.

Special Deposit Accounts - Lack of Policies and Procedures and Inconsistent Practices (24)

Per OTFM management, "Special Deposit" accounts are to be used as suspense accounts to which funds are posted when the distribution is not immediately clear. These accounts are held within the IIM subsidiary system. The funds are then transferred to the account holder when the proper allocations are determined. For receipt and disbursement transactions specifically related to Special Deposit accounts, we noted a number of practices which may be inconsistent with **management's** defined use of Special Deposit accounts, as well as inadequate policies and procedures governing the use of these accounts.

Among the issues noted were:

- ◆ Special deposit account balances are incompletely allocated (less than 100% of the balance is allocated, leaving a residual Special Deposit account balance) or allocated on an "**as-needed**" basis (similar to a checking account) to the beneficiary as opposed to being allocated in full.
- ◆ Loan payments to third party financial institutions accumulate in a Special Deposit account, and lump sum payments are made on behalf of beneficiaries. **The** amounts paid do not equal the amounts contributed by beneficiaries, and it is not known how the payments by individuals were reconciled to the lump sum payments. **Further**, we were unable to obtain **documentation** to support approval by the beneficiaries of these payments made to third parties.

These practices noted above may expose the OTFM to unnecessary risk, as in the case of receipt and disbursement of loan **payments** or payments to third parties without documented beneficiary approval

- ◆ A Tribal credit program using a Special Deposit account to withdraw funds as necessary to make loans to Tribal members. The source of the **&posits** to this

particular Special Deposit account may be loan repayments, which are not considered proper receipts from trust activities.

- ♦ Past errors which had not been resolved offset to Special Deposit accounts. These include canceled check claims, payments to an incorrect individual for per capita distribution, and historical conversion errors (from manual to automated system in 1977).
- ♦ Special deposit accounts contain judgment award funds.
- ♦ Special deposit accounts were missing supporting documentation for the approval of disbursements to third parties.
- ♦ Disbursements are made directly to beneficiaries from Special Deposit accounts without first being transferred to a beneficiary's IIM or Tribal account. These transactions were not reported on the account holder's statement.

Direct disbursements from Special Deposit accounts pose problems in providing a complete and accurate accounting. Statements of Special Deposit accounts are not routinely sent to beneficiaries, and none of the Special Deposit activity is consolidated with the beneficiary's account statements. Based on our analysis, only 12% of Special Deposit accounts receive statements, and none of the Tribal Special Deposit accounts in our sample received such statements. Approximately \$33,000,000 was directly disbursed from Special Deposit accounts to third parties (beneficiaries and unrelated third parties combined).

The American Indian Trust Fund Management Reform Act of 1994 ("The Reform Act") requires periodic statements be provided to account holders and that accounts be reconciled. As a result of these practices, the OTFM may be unable to comply with The Reform Act, and incomplete and inaccurate reporting is being provided to account holders.

- ♦ For receipt and disbursement activity, various attributes of specific Special Deposit accounts were tested. These attributes included proper authorization and support for establishing the initial account in the IIM subsidiary system. The OTFM was unable to provide documentation for two of the eleven Special Deposit accounts that were selected for testing. The accounts have been in existence since 1985 and 1993, respectively, and both accounts have negative, overdraft balances.

Lack of standardized procedures and adequate resources to identify and allocate these monies is the primary cause of aged Special Deposit account balances. Further, management lacks financial reports to sufficiently monitor the progress of Area and Agency offices in clearing Special Deposit account balances.

Recommendation (24): We recommend the OTFM establish policies and procedures which clearly define proper sources of trust receipts and disbursements to and on behalf of trust beneficiaries. The OTFM also needs to establish standard policies and procedures for Special Deposit transactions. The procedures should include under which circumstances the use of a Special Deposit account is acceptable, reconciliation and reporting procedures for monitoring and clearing Special Deposit balances and the manner in which transfers are to occur. Further, the OTFM should initiate management reporting which includes the ability to report &tail aged transactions categorically and consolidated at various levels (Agency, Area and

OTFM), to assist management in refining accountability for these balances and to monitor progress made toward resolution of these balances. Finally, the OTFM needs to develop and implement a plan for clearing Special Deposit balances.

Client Response (24): The OTFM is working on several IIM reform initiatives. The initiatives include a massive IIM system review and data clean up in preparation for a conversion to a new IIM system. The data clean up will include a review of each IIM account on the system in order to ascertain that the account was established properly, and that adequate documentation is contained in the jacket file to enable proper fiduciary management of each account. Throughout this effort, OTFM will be implementing revised policies and procedures which will clearly define the proper management of accounts. As policies and procedures are updated, all regulations, laws, etc., affected will also be revised. Compliance with the new policies and procedures will be enforced through OTFM monitoring/review mechanisms.

The OTFM has shared the above finding with the Bureau of Indian Affairs.

#### IIM Interest Earnings - Inadequate System, Policies and Procedures (25)

The distribution of interest earnings to IIM accounts is not performed in a consistent manner. For example, some accounts closed during the month using the Closed Accounts Program ("CAPS") receive interest based on the Overnighter investment only. However, due to limitations of the IIM system, other accounts closed during the month do not use the CAPs program, but receive interest based on the interest factor from the previous month. Other accounts open throughout the month receive interest based upon a calculation which considers the entire IIM investment portfolio earnings. The above inconsistencies may lead to an inequitable distribution between account holders.

The CAPs program was instituted to eliminate overdistributions when closing accounts and to provide an automated calculation reducing errors in manual calculations. However, the CAPs program cannot be used for all accounts. Therefore, some accounts continue to receive incorrect interest allocations.

Written policies and procedures for the various methods of determining the IIM interest earnings calculation and distribution have not been completed. Policy and procedures should address both the CAPs program and monthly processes for assimilating information from the various sources, calculation methodology, due date for completion, and a review checklist. Without a standard to follow, changes or errors in the methodology of the calculation can occur without management's knowledge or approval. An informal review process without formal approval does not properly document that a review was performed, particularly if changes or recalculations were recommended. In addition, the lack of adherence to set deadlines may lead to untimely distributions.

Recommendation (25): Policies and procedures should be updated to include proper distributions calculation methods, an in-depth explanation of how the calculation is performed, a deadline for completion and process for review.

The current systems cannot perform the distributions in an equitable, consistent manner. The OTFM should consider addressing IIM system requirements as part of a comprehensive systems review. Implementing a new system in conjunction with an effort to address some outstanding IIM accounting issues, such as negative balances and Special Deposit accounts may provide the OTFM with the means to distribute income in a more equitable manner.

Client Response (25): The OTFM is working on several IIM reform initiatives. The initiatives include a massive IIM system review and data clean up in preparation for a conversion to a new IIM system. The new IIM system will calculate and distribute the IIM pool earnings in line with private industry mutual fund practices. In the interim, several IIM interest calculation and distribution system enhancements have been or will be placed into production. Once in production, the enhancements will result in the elimination of manual interest calculations. Throughout this effort, OTFM has and will continue to implement new/revised policies and procedures. The IIM pool is valued monthly. Consistently allowing for the use of the IIM factor on all distributions would require the OTFM to value the pool daily which is not attainable at this time due to system constraints. The inability to value the IIM pool daily is the reason why the Closed Account Program (CAP) is using the daily Treasury overnight investment rate when the monthly factor is not available. The OTFM funds what is earned; the Treasury overnight rate can be confirmed daily as earned.

#### Negative IIM Account Balances Included in Invested Balance (26)

The IIM subsidiary ledger contains negative account balances approximating \$44,000,000. The OmniTrust control account for IIM is supposed to represent the aggregate net balance of the IIM subsidiary system. However, this is difficult to determine because of the \$29,000,000 out of balance condition between OmniTrust and the IIM subsidiary ledger which is noted in a separate reportable condition. The invested balance for IIM account holders is equal to the OmniTrust balance. If the negative balances are included in both ledgers, IIM account holders with positive balances are being penalized by lower earnings due to the IIM investment pool being reduced by the amount of the negative balances.

In addition to individual overdraft accounts, a large portion of the negative balances are due to negative undistributed interest account balances. These accounts have continued to grow over the past year due to a lack of reconciliation. IIM account holders with positive balances are potentially penalized as a result of investing the net IIM holdings as a pool.

Recommendation (26): The OTFM should undertake a reconciliation of the out of balance condition between the IIM system and the OmniTrust system in conjunction with an analysis of the negative IIM account balances. The resolution of negative account balances, particularly negative interest distribution account balances, may positively impact the resolution of the out of balance condition.

Client Response (26): The OTFM is currently in the process of researching the variance between the IIM control account and the IIM subsidiary. This research is expected to affect the negative balances in the IIM subsidiary. The impact of the negative balances and variances on the IIM pool earnings cannot be quantified until the research is complete and other arrangements are made to resolve the matter. The OTFM is working on several IIM reform initiatives. The initiatives include a massive IIM system review and data clean up in preparation for a conversion to a new IIM system. In the interim, several IIM interest calculation and distribution system enhancements will be placed into production. The OTFM believes that the bulk of the overdrafts may be related to inadequate accounting for the interest calculations and distributions.

#### IIM Amortization/Accretion of Mortgage Backed Securities (27)

The monthly calculation of IIM investment earnings for distribution to the IIM account holders is a manual process which attempts to calculate earnings on an accrued basis for the IIM investment pool. For securities purchased at premiums or discounts other than mortgage backed securities, the amortization or accretion is calculated on a straight line basis, and added to the pool earnings for the period. However, amortization/accretion of mortgage backed securities held on behalf of IIM account holders is not calculated in the monthly IIM earnings calculation of the interest distribution.

Without the amortization/accretion calculation, investment income for mortgage backed securities is recognized on a cash, rather than accrual basis. As a result, the IIM account holders receive monies at a different point in time than they would if the mortgage backed securities were being properly amortized or accreted. This method is inconsistent with the treatment of the balance of the IIM investment earnings calculation.

Recommendation (27): We recommend the OTFM consider implementing appropriate amortization/accretion methods in accordance with FASB 91 for the IIM earnings calculation and distribution.

With the release of Federal Accounting Standards Advisory Board Interpretation Number One, there is some question whether amortization/accretion requirements under the CFO Act and OMB 94-01 are applicable to the Indian Trust Funds for years ending in 1997 and thereafter.

Client Response (27): The OTFM has placed into production the Bolt II portfolio management and reporting system. The system will calculate accruals on all securities held and report earnings on the accrual basis. The system will amortize and accrete mortgage backed securities in compliance with FASB 91 and GAAP. In addition, the system will amortize and accrete non-mortgage backed securities using the effective interest method. The Bolt II system accounting assumptions and methods were selected based on conservatism and consistency in order to be FASB 91 and GAAP compliant.

#### Trust Fund Balance Transfers Recorded Inconsistently (28)

There is a lack of policies and procedures in recording transfer transactions, which has resulted in transfer transactions being recorded in an inconsistent manner. To record transactions which represent transfers between and within appropriations, a "BB" transaction type should be utilized within the OmniTrust system and specific codes should be set up to denote these transactions. The net effect to the aggregate fund balance should be zero. However, in some instances we noted that income is being recorded twice as a result of transfer transactions. When trust income is received, it is coded to a specific type (e.g., royalties, lease payments, etc.). At a later date, if the money is transferred to another account, an income type code is again used, rather than a transfer code. This condition resulted in a net inaccurate recording of trust activity of approximately \$4,000,000.

Recommendation (28): The OTFM should review policies and procedures related to transfer transactions and ensure that OTFM staff are properly trained to account for these transactions. A supervisory review and approval of the transaction prior to posting to the OmniTrust system should be included in these procedures.

Client Response (28): The OTFM acknowledges problems with the way BIA-4285 (BB) transfers are processed creating the condition addressed by the auditors. The

Branches of IIM, Tribal Trust Funds and Field Staff will work together to develop new policies and procedures which will address the problem.

#### Other Advisory Comments

##### Earnings on Overnight Investments (29)

The OTFM has no formal written policies and procedures to document the method of determining the amount to invest in the Overnight investment, or how to distribute the income earned thereon. During our testing we noted one instance where the OTFM incorrectly calculated the amount to invest as a direct result of a coupon interest payment being late. In instances when the OTFM calculates and invests an amount greater than what is actually available, the OTFM refunds the Treasury for the interest earned on the over-invested amount. When the broker paid the OTFM interest for being late, the OTFM posted the receipt to the account holder instead of refunding the Treasury. An inexperienced employee was performing this function and was unclear how to handle the transaction.

Recommendation (29): Current policies and procedures should be documented in the form of procedure manuals. Employees should be familiar with the policies and procedures and receive sufficient training prior to processing transactions.

Client Response (29): Overnight investment procedures have been drafted and are in the process of being finalized and implemented.

##### Investment/Bolt II System Implementation (30)

To satisfy financial reporting requirements and to perform an automated calculation of amortization and accretion in accordance with FASB 91 guidelines, the OTFM implemented the Bolt II investment accounting system. The Bolt II system will be used in conjunction with the OmniTrust system, and OmniTrust data was used to populate the Bolt II system data fields. However, the OTFM did not have a formalized, detailed needs assessment and implementation plan in place prior to the selection and data conversion. For example:

- ♦ OTFM personnel performed limited, informal testing as part of its assessment of the Bolt II system to determine if Bolt II would be adequate to meet the OTFM's needs. OTFM personnel submitted seven securities for testing, including FICO strips (principal only securities, with conversion features at various call dates), deep discounts (zero coupon), and mortgage backed securities. However, other security types were not tested, nor was the dollar size of the securities tested in relationship to the entire portfolio considered. Complete and thorough testing may have helped identify potential system weaknesses, limitations or incompatibilities.
- ♦ The OTFM did not utilize outside consultants in order to assess alternative systems, nor was a consultant utilized during the implementation process. OTFM personnel could not allocate sufficient time and resources to the system conversion process.
- ♦ A comprehensive plan to convert data to the Bolt II system should have documented which individuals were to be involved in the process and identified each person's

specific responsibilities and deliverables. Implementation phases and time frames for completion should have been documented to gauge progress and timely delivery. A plan would most likely include system testing as an integral phase of the process. The system testing would also be thoroughly documented in computer generated reports, analytical memoranda and data run scenarios.

- ◆ After converting data to the Bolt II system, OTFM personnel did not agree the market values of securities reported by OmniTrust to those which were reported by the new Bolt II system reports. Also, security descriptions were not verified or compared to those recorded in OmniTrust. We noted several discrepancies in security descriptions and market values between the OmniTrust and Bolt II systems.
- ◆ Bolt II reports transactions based on a calendar year, while the OTFM operates on a 'fiscal' year basis. As a result, the OTFM has to develop alternative procedures to accumulate fiscal year to date activity.
- ◆ The OTFM did not adequately consider system and information requirements for its September 30, 1996, financial statement reporting, including reporting the changes in trust fund balances. Considerable time and manual effort was required to produce the needed information.

Recommendation (30): We recommend that before another system implementation or conversion is undertaken, the OTFM should complete a tailed plan noting who will be involved, what each individual's responsibilities will be and their corresponding deliverables. Consideration should be given to the use of outside expert consultants to assist in assessing alternative systems, implementation and training. We also suggest that OTFM personnel should complete a reconciliation and confirmation of critical data fields, such as security descriptions, CUSIP numbers, maturity dates, rates, units, carrying values, and market values as part of the conversion process to ensure that the transference of all data is complete and reliable. Any corrections to data recorded should also be verified by OTFM personnel.

Client Response (30): OTFM concurs that there was not a formalized conversion plan prior to the Bolt II conversion.

OTFM's initial need for the Bolt II portfolio management system was to calculate earnings on the accrual basis (FASB 91 compliant) for a handful of OmniTrust accounts.

Additionally, OTFM intended to use the Bolt II to calculate year-end amortized/accreted book values (FASB 91 compliant) for the September 30, 1996, financial statements.

The OTFM did not prepare or audit the Statement of Changes in Trust Fund balances for fiscal year 1995. As a result, OTFM selected a portfolio management system without the benefit of experiencing an audit on the statement of changes in assets and trust fund balances. If the 1995 audit had included this statement, then the OTFM would have known before the selection process what reports/schedules/data would be needed in the audit.

Before the Bolt II selection, OTFM explored several systems like SunGard - Canoga Park Series II system, SunGard - Charlotte trust accounting system, SunGard - Minneapolis Bolt II system, CMS Bondedge system and CAMRA.

Seven securities were selected for testing in Bolt II and Series 2 as the other systems explored were either cost/installation time prohibitive or not FASB 91 compliant. The seven securities were selected because they require special handling in order to amortize/accrete them in compliance with FASB 91. Documentation for the seven securities tested is available for auditor review in the Branch of Investment Accounting.

After considering installation time, cost and FASB 91 compliance, the SunGard Bolt II system was selected.

Due to audit time requirements, the conversion to the Bolt II system was completed as quickly as possible. During the Bolt II implementation, the Branch of Investment Accounting was also struggling to comply with audit documentation and calculation requests, and convert to a centralized custodian. In spite of extremely limited human resources and time, a reconciliation between Bolt II reports and OmniTrust trust reports was performed for the following data elements: CUSIP, maturity date, units, carry value, and coupon rate. All discrepancies discovered were corrected. The market value discrepancy discovered later was due to a data field formatting difference for the preferred stocks. This problem has also been corrected.

It is OTFM's understanding that the auditors did rely on and incorporate Bolt II balances in the 1996 financial statements. In the future, all data elements in Bolt II will be reconciled to OmniTrust with differences corrected timely. OTFM will implement a work around in order to capture fiscal year to date activity from the Bolt II system.

OTFM concurs that as a result of our staff in the Branch of Investment Accounting being heavily involved in daily operations to be able to devote the time and resources necessary to sufficiently spearhead a conversion. Upon adoption of the proposed DM 130, the Division of Trust Funds Systems will have adequate resources to offer in house support for system conversions. In the interim, the use of outside consultants will be determined by the complexity of the conversion and the availability of funding.

The following sections contain the comments from the September 30, 1995, Report on Internal Controls.

#### Material Weaknesses - Prior Year - September 30, 1995

##### Cash (1)

Cash balances converted from the prior general ledger to OmniTrust were approximately \$27,000,000 higher than the balance per the Treasury. Cash reconciliation procedures only reconcile current activity from OmniTrust to Treasury and do not address the unreconciled beginning balance. The composition of the difference is not known and no reliance has been obtained that either the OTFM balance or the Treasury balance is accurate.

This condition was concurred but not resolved during the year en&d September 30, 1996. Further, the \$27,000,000 difference is now reflected at approximately \$35,000,000 as of September 30, 1996. The out of balance condition changes as reconciling items are identified and cleared.

#### Investments (2)

The **OmniTrust** trust and investment system does not amortize premiums nor accrete discounts on investment purchases using the effective interest method as required by **OMB 94-01, "Other Comprehensive Basis of Accounting."**

The amortization and accretion calculations must be computed separately and recorded as an **adjustment** at year end.

This results in interim financial reporting which does not reflect the investment portfolio's true yield.

**OmniTrust** can calculate amortization and accretion only on the straight line method but currently is unable to calculate on the effective interest method in accordance with **FASB 91**.

At September 30, 1996, the OTFM had contracted with **SunGard Securities, Inc.** (which also provides the **OmniTrust** system services to the OTFM), to perform investment accounting and reporting utilizing their Bolt II system. The Bolt II system, in most cases, can amortize premiums and accrete discounts on investment purchases utilizing the effective interest method.

This condition was concurred and resolved during the fiscal year en&d September 30, 1996.

#### Trust Fund Balances (3)

The Bureau Suspense Account #6875 with Treasury has a balance of approximately \$11,700,000, of which only approximately \$168,000 is reflected on **OmniTrust**. This was a shared account with the Division of Accounting Management, and it was not determined at the time to whom the balances belonged. As of September 30, 1996, the Division of Accounting Management and OTFM completed an analysis of this account and segregated their respective balances. The account balance per Treasury now agrees to the account balance per **OmniTrust**. This issue was concurred and has been resolved.

An "**Undistributed Interest Account** from **TFMS**" (the prior general ledger system) exists on **OmniTrust** with a balance of approximately \$1,800,000 at September 30, 1995. As of September 30, 1996, the balance of this account is approximately \$1,900,000, due to interest being accrued to the balance. This condition was concurred; however, the balance remains unresolved.

There was a difference between the general ledger summary account of **IIM** on **OmniTrust** and the total of the balances per the **IIM** subsidiary ledger &tail. The difference was approximately \$30,000,000 at September 30, 1995, with the general ledger carrying the higher balance. There were also **negative** cash balances on the **IIM** subsidiary system aggregating approximately \$46,000,000.

At September 30, 1996, the out of balance condition between the general ledger summary account on **OmniTrust** and the total balances of the **IIM** subsidiary ledger

detail approximated \$29,000,000, with the general ledger maintaining the higher balance. The negative cash balances on the IIM subsidiary system aggregated approximately \$44,000,000. This condition was concurred, but remains unresolved at September 30, 1996.

#### Area and Agency Offices (4)

A review of questionnaire responses from the Area and Agency offices indicated that there is no consistency in the application of accounting policies and procedures. There were also inconsistencies reported in duties performed by certain key personnel at the Agency offices, as well as inadequate segregation of duties. During fiscal year ended September 30, 1995, staff in the Area and Agency offices were supervised by the Bureau, and did not report to the OTFM.

During 1994, the OTF'M prepared and distributed to Area and Agency offices a desktop operating manual which documents IIM procedures. The Areas and Agencies often did not rely on the most recent procedure manuals. The 42 BIAM was reported as being utilized most frequently, yet several Agencies reported not having a copy of the 42 BIAM.

This lack of standardization resulted in the OTFM having minimal control over the staff accounting for the majority of the receipts and disbursements in the IIM system. With the exception of investment related transactions, transactions affecting the IIM system originate in the Area and Agency offices.

This condition was concurred and remains unresolved at September 30, 1996.

#### General

The accounting systems and internal control procedures used by the OTF'M have suffered from a variety of system and procedural internal control weaknesses, and other problems, such as understaffed accounting operations at all levels, a lack of experienced accounting supervisors, a lack of minimum standards for key positions in the accounting process, inadequate training programs and inherent limitations in existing computerized accounting systems. In addition, current management is burdened with the ongoing impact of decades of accumulated errors in the accounting records. These factors place significant limitations on management's ability to effectively manage the trust funds entrusted to the OTFM.

In an effort to effectively address these pervasive issues, the OTFM was placed under the direction of the OST, effective February 9, 1996. The OST has developed the conceptual framework for a comprehensive strategic plan to address the issues set forth herein. However, given the recency of the OST involvement, it is not possible at this time to provide any meaningful feedback on the viability of the strategic plan or to assess progress on its implementation.

This condition remains unresolved at September 30, 1996.

#### Reportable Conditions - Prior Year - September 30, 1995

#### Cash (5)

#### **Negative Cash Balances**

**There** are thirteen (13) cash accounts on **OmniTrust** with negative balances totaling approximately \$742,000.

Standardized procedures have been instituted to address the handling of **negative** cash balances and a time limit has been established to address such balances. We recommend that the **OTFM** continue such procedures. The current balances, however, are likely to **remain** out of balance until the U.S. **Government** and the beneficiaries reach a resolution regarding past activities and balances.

#### ***IIM Investment Earnings***

No **IIM** reconciliation process was in place to reconcile the cash interest received during the month to the cash interest *withdrawn per the* monthly interest accrual. In addition, no process existed to reconcile the interest allocated to individual accounts to the amounts distributed. Due to the manually calculated distributions made during the month, the interest ultimately distributed by the Area and Agency offices **does** not agree to the actual **amount** of interest earnings.

This condition was concurred but unresolved at September 30, 1996.

#### **Investments Records Management (6)**

As part of the **investments** testwork, specific investments were selected and the par value *per OmniTrust* was agreed to third party documentation. The third party documentation consisted of brokers' **advices** confirming the purchase amount, par, interest rate and other information. Of a **sample** of 73 securities, 14 (19 percent) were not supported by purchase **confirmations**. Three securities, or 4 percent of the missing documentation, related to securities purchased during fiscal year 1995. All of the **documents** were later obtained by contacting brokers directly and having the information faxed to the **OTFM** or were **verified** in the custodial reconciliation process.

For fiscal year ending September 30, 1996, similar testing revealed that, of a **sample** of 74 securities, 1 (1 percent) was not supported by broker's **confirmation**. The missing **documentation** was related to a security purchased prior to 1996.

This condition was concurred and has been resolved. **Implementation** is in progress at September 30, 1996.

#### **IIM Special Deposit Accounts (7)**

Through the Area and Agency offices, the Bureau **&posits** money into Special Deposit accounts within the **IIM** system when a means to allocate the money is not immediately clear. There appears to be no control at the central office or at the *Area* and Agency office level to verify that items are **eventually** cleared.

These **monies**, which may belong to a trust beneficiary, **remain** unposted to the beneficiary's account and subsequent investment or **disbursement** of the funds is delayed.

This condition was concurred yet continues unresolved at September 30, 1996. However, clean up efforts have begun.

### **Ownership Records (8)**

Ownership records at the Area and Agency offices are not updated in a timely manner. This results in the potential for inaccurate distributions of lease income to IIM account holders. Lack of resources to process the significant number of changes causes this backlog.

This condition was concurred, but remains unresolved at September 30, 1996. However, this issue was addressed by the Special Trustee's Strategic Plan.

### **General**

#### **Policies and Procedures (9)**

In reviewing the internal control structure for the OTFM, other than the IIM desktop manual, we were unable to locate current written policies and procedures. No formal written procedures were located to document the investment process, accounting for investments and accounting for Tribal Trust Funds.

This condition was concurred and resolution is underway at September 30, 1996.

#### **Accounts Receivable System (10)**

The Bureau does not have an accounts receivable system in place. The GAO, in its report dated April 25, 1994, (GAO/AIMD-94-110R) recommended that the Bureau develop an accounts receivable system. Currently, the Bureau has no assurance that all lease revenues are billed and subsequently collected.

Such a system should provide reasonable assurance that earned revenues are billed, collected and posted to the appropriate beneficiary's account.

This condition was concurred but remains unresolved at September 30, 1996. However, this issue was addressed by the Special Trustee's Strategic Plan.

### **Other Advisory Comments - Prior Year - September 30, 1995**

#### **Cash Reconciliation Process (11)**

The daily cash reconciliation was not presented in a traditional bank reconciliation format with the adjusted bank balance agreed to the adjusted book balance. The reconciliation ignored the differences between OmniTrust's opening balance and that of the Treasury and lists only reconciling items created subsequent to the conversion. A section of the daily reconciliation is titled "OmniTrust adjustments and prior period" with all the item in this section representing partial clearings of the opening difference. If the opening difference were carried on the daily reconciliation, the items in this section could be netted against the opening difference and would no longer need to be included on the daily reconciliation worksheet.

The OTFM revised its presentation of the daily cash reconciliation during the current fiscal year; therefore, this condition was concurred and has been resolved and implemented.

### **Electronic Data Processing**

#### *Disaster Recovery (12)*

Disaster recovery planning over the **OmniTrust** application is adequate. Our review noted there currently is no formal agreement for disaster recovery pertaining to the Unisys A-17 or the IBM 3090. The physical location of the two mainframes is at the **Albuquerque** Federal Court Building, a high risk location. Informal **arrangements** have been **made** with other governmental agencies to provide recovery services in the event of a disaster.

This condition was concurred and resolution is in process at September 30, 1996. However, limitations to the current planning should be noted. Our review noted a disaster **recovery** agreement was implemented and a test of the plan has been successfully **completed**. Our review also noted the disaster **recovery** tapes for the Unisys A-17 are not rotated **offsite** in a **timely** manner. The **current** rotation procedure could potentially result in a loss of information.

#### *Password Controls (13)*

Security controls over the Unisys A-17 mainframe are inadequate. The system does not require automatic password changes periodically, users are not automatically logged out after a specified period of inactivity, and there is no limit to the number of invalid password attempts made by a user. **Furthermore**, our **discussion** noted that "Help Desk" personnel have the ability to reinstate or reset **passwords** which have been revoked. This condition was concurred but remains **unresolved** at September 30, 1996.

#### *Application Change Controls (14)*

Our review noted that changes to the IIM application are not performed in a test **environment** on the Unisys A-17 **mainframe**. There are also no procedures in place for subsequent review after changes have been implemented by the **programmer**. Review is limited to verification of the output by the requesting party.

This condition was concurred but remains unresolved at **September** 30, 1996.

#### *Conversion to OmniTrust (15)*

We noted that the OTFM did not retain an outside consultant to assist in the 1996 computer conversion. Although an **OTFM employee was** responsible for the conversion, they also had daily tasks to perform and could not **&vote** 100% of their: **time** to the conversion process.

This issue was concurred and resolved.

#### 1099 Interest Reporting (16)

Currently, there are individuals with no known social security number receiving interest income on trust investments. Because the social security number is unknown, the OTFM reports the interest earnings to the Internal Revenue Service ("IRS") with no recipient social security number. They do not withhold taxes prior to the interest distribution. Of the approximately 260,000 accounts on the IIM system held by individuals, approximately half, or 130,000, have no social security number.

This condition was concurred but has not been resolved at September 30, 1996.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.

This report is intended for the information of the Inspector General, the Assistant Secretary for Indian Affairs, the Office of Special Trustee for American Indians of the U.S. Department of Interior and management of OTFM and is not intended for any other purpose. However, this report is a matter of public record and its distribution is not limited.

*Griffin & Associates, P.C., CPAs*

GRIFFIN & ASSOCIATES, P.C.  
Certified Public Accountants

Boulder, Colorado  
January 17, 1997

U.S. DEPARTMENT OF THE INTERIOR  
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS  
TRIBAL, INDIVIDUAL INDIAN MONIES AND  
OTHER SPECIAL TRUST EWNDS  
MANAGED BY THE  
OFFICE OF TRUST EWNDS MANAGEMENT

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON COMPLIANCE WITH  
LAWS AND REGULATIONS

SEPTEMBER 30, 1996

# GRIFFIN & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

DAN D. GRIFFIN

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## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON COMPLIANCE WITH LAWS AND REGULATIONS

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To the U.S. Department of the Interior  
Office of the Special Trustee for American Indians:

We have audited the Statement of Assets and Trust Fund Balances and the related Statement of Changes in Trust Fund Balances for the Tribal, Individual Indian Monies and Other Special Trust Funds managed by the U.S. Department of the Interior: Office of the Special Trustee for American Indians ("OST") Office of Trust Funds Management ("the OTFM") as of and for the year ended September 30, 1996, and have issued our report thereon dated January 17, 1997.

We conducted our audit in accordance with generally accepted auditing standards, the standards for financial audits contained in *Government Auditing Standards* (1994 Revision) issued by the Comptroller General of the United States and Office of Management and Budget (OMB) Bulletin 93-06, "Audit Requirements for Federal Financial Statements." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws and regulations applicable to the OTFM is the responsibility of the management of the OTFM. As part of obtaining reasonable assurance about whether the statements referred to above are free of material misstatement, we performed tests of OTFM and compliance with certain provisions of laws and regulations. As part of our audit, we also obtained an understanding of management's process for evaluating and reporting on internal control and accounting systems as required by the *Federal Managers' Financial Integrity Act (FMFIA)* and compared the material weaknesses reported in the Office of the Special Trustee for American Indians, Office of Trust Funds Management's FMFIA report that relate to the financial statement under audit to the material weaknesses and other reportable conditions found during the evaluation we conducted of the OTFM's internal control structure. However, the objective of our audit was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in law or regulations that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the Statement of Assets and Trust Fund Balances and the Statement of Changes in Trust Fund Balances, or that the sensitivity warrants disclosure thereof. The results of our tests disclosed material instances of noncompliance that are required to be reported under *Government Auditing Standards*.

As communicated to us by the Office of the Solicitor (Solicitor) for the Department of the Interior, tribal organizations and classes of Indian individuals have filed various claims against the U.S. Government for failure of the Federal government to fulfill its fiduciary responsibilities and related charges.

We noted a material instance of noncompliance as a result of our receipts and disbursements testing which is described below.

The OTFM, and Bureau have not reached an operating agreement or executed a Memorandum of Understanding that would define the authorities and responsibilities of various OTFM and Bureau personnel in performing financial trust services on behalf of Tribes and individual Indians. As a result, lines of authority are unclear and transactions are improperly authorized or, in some cases, processed without authorization.

- ◆ We reviewed disbursement transactions for proper approvals, in accordance with 25 Code of Federal Regulations ("CFR") and Secretarial Order 3177 or Secretarial Order 3197 (for transactions subsequent to February 9, 1996). According to numerous sections of 25 CFR, and Secretarial Order 3177, disbursements from tribal trust accounts require the approval of the Secretary of the Interior or his delegate. This authority was subsequently re-delegated to Agency Superintendents for transactions prior to February 9, 1996.

On February 9, 1996, Secretarial Order 3197 established the Office of the Special Trustee for American Indians within the Department of the Interior and moved the Office of Trust Funds Management from the Bureau to the OST. The Secretarial Order issued all delegations of authority for financial trust services to the Special Trustee for American Indians, and rescinded all such delegations to the Assistant Secretary - Indian Affairs. Pursuant to that Order, on February 9, 1996, the Special Trustee for American Indians delegated all program and administrative authorities necessary to perform financial trust services to the Director, OTFM, with the exception to approve withdrawals of tribal funds from trust. This delegation was published as 210 DM 14, Release 3053.

The Director, OTFM, attempted to re-delegate administrative authority within the jurisdiction set forth in 210 DM 14, Release 3053, to OTFM field accounting personnel and Bureau Agency Superintendents. This re-delegation was not approved. Therefore, all delegations of authority continue to reside with the Director, OTFM, only.

Client Response : In our agreement with the noted conditions found, OTFM is currently working with the Bureau of Indian Affairs to enter into a Memorandum of Understanding (MOU) between both entities. The various trust accounting events and definitive lines of authority are vague today but assistance from the Department of Interior's Office of the Solicitor in the negotiation process will evolve into a fiscal year 1997 solution. The agreed upon MOU will be the catalyst for producing sound OTFM policies and procedure that emphasize lines of authority at all levels of operations.

- We also noted certain immaterial instances of noncompliance.

- ◆ Instances of noncompliance with 25 CFR were noted during visits to Agency offices as follows:

- ◆ Noncompliance with 25 CFR, Part 114.4 was noted during the receipts and disbursements testing that was conducted for all Agencies. The Agencies have instances where they must calculate interest at an interim period prior to the month-end interest distributions. The Agencies calculated interest on Special Deposit Accounts using an average daily balance rather than using the month-end balance since the last interest period, as stated in the 25 CFR.

- ◆ Instances of noncompliance with 25 CFR, Part 161 were noted during visits to the Collville, Washington, Agency offices. Gaming funds were deposited into special deposit accounts which are trust accounts and are invested. A Notice of Retraction was issued by the OST which stated gaming funds are not to be accepted into trust accounts, in accordance with the Department of Interior's policy.
- ◆ It was noted that Agency offices are in violation of the Treasury Fiscal Requirements whereby funds had been accumulated in excess of \$1,000 and a timely deposit was not made.

Client Response - The OTFM is in the process of an extensive IIM system review and clean up effort. This effort will include a review of each IIM account of record in order to ascertain that the account is being used properly, and that adequate documentation is filed in the jacket folder. Throughout this effort, OTFM will be implementing revised policies and procedures which will clearly define the uses for accounts, etc. As policies and procedures are updated, all regulations, laws etc., affected will also be revised. In addition, a conversion to a new IIM system is in the planning stages. Compliance with the new policies and procedures will be enforced through central office tracking mechanisms as well as compliance reviews performed by the Branch of Field Review.

Development of policies, procedures and regulations that govern the Division of Field operations will be established and placed into effect. These procedures will be in compliance with the DM 130 as approved and other laws and regulations.

The following sections contain comments from the September 30, 1995, Report on Compliance with Laws and Regulations.

- ◆ Instances of noncompliance with 25 CFR, Part 162 were noted during visits to Agency offices as follows:
  - ◆ The Pima Agency had one lease with the following exceptions:
    - ◆ The lease was not advertised nor put out for bid prior to letting the lease.
    - ◆ A surety bond guaranteeing the contractual obligation was not obtained.
    - ◆ The January 1, 1995, payment was received June 2, 1995. No interest was charged nor received on the late payment.
  - ◆ The Uinta and Ouray Agency had two leases with the following exceptions:
    - ◆ Two leases had no documentation indicating that the leases were let at fair market rental.
    - ◆ Two leases contained no surety bond guaranteeing the contractual obligation.
- ◆ The Pima Agency had one violation of the Treasury Fiscal Requirements whereby funds had been accumulated in excess of \$1,000 and a timely deposit was not made.

- ♦ The OTFM is not in compliance with the policy **statement requirements** of the CFO Act.
- ♦ The OTFM is not in compliance with **certain** requirements of OMB Circular 123 and 127.
- ♦ We are aware that the Solicitor for the Department of the Interior is aware of certain possible violations of various laws and regulations which may affect the OTFM.
- ♦ The OTFM has not complied with certain **requirements** of the U.S. General Accounting Office Accounting Series pronouncement.

The prior instances of noncompliance were concurred but remain unresolved at September 30, 1996.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, the OTFM complied with the provisions referred to in the third paragraph of this report, and with respect to items not tested, nothing **came to our attention** to cause us to believe the OTFM had not **complied**, in all material respects, with those provisions.

This report is intended for the information of the Inspector General, the Assistant Secretary for Indian Affairs, the Office of Special Trustee for American Indians of the U.S. Department of Interior and management of OTFM and is not intended for any other purpose. However, this report **is** a matter of public record and its distribution is not limited.

*Griffin & Associates, P.C., CPAs*

GRIFFIN & ASSOCIATES, P.C.  
Certified Public Accountants

Boulder, Colorado  
January 17, 1997

## STATUS OF RECOMMENDATIONS IN AUDIT REPORT 97-I-196

<u>Recommendation Reference</u>	<u>Status</u>	<u>Action Required</u>
1,3-5,7-10, 12-14, and 16	Resolved; not implemented.	No response to the Office of Inspector General is required. The recommendations have been referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.
2, 6,11, and 15	Implemented.	No further action is required.



# United States Department of the Interior

OFFICE OF THE SECRETARY

Washington, D.C. 20240

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## Memorandum

To: Assistant Inspector General for Audits

From: Ada E. Deer *Michael Chelton*  
**ACTING** Assistant Secretary - Indian Affairs

Subject: Audit Report on the Financial Statements for Fiscal Year 1996 of the Tribal, Individual Indian Monies, and Other Special Trust Funds Managed by the Office of the Special Trustee for American Indians (Assignment No. C-IN-BIA 001-97)

We appreciate the opportunity to review the draft audit report prior to its issuance by the Office of Inspector General. While all of the current year recommendations are directed to the Office of Trust Funds Management, OST, we have noted findings in the report from prior years for which BIA is responsible for corrective actions. These are addressed further below.

We also recognize that a joint cooperative effort with the Office of the Special Trustee is a step toward resolving the long-standing problems in trust funds and natural resource management. In that respect, we are working with the Special Trustee to finalize the memorandum of understanding between the OST and the BIA also mentioned in your report. Of significance in this regard, is the fact that we are working with the Special Trustee and other entities within the Department to implement the Secretary's Trust Improvements Project defined in his August 22, 1997 memorandum as the approach for improving Indian trust management. In this effort, we are working jointly with the Special Trustee and various Bureaus as a participant in the newly established Trust Improvement Management Team to develop a high level implementation plan for resolution of trust management issues.

Specifically, with respect to the findings noted in your report, the following is noted:

- Ownership records at the Area and Agency offices are not updated in a timely manner.

The BIA is addressing land records backlog problems as one of the vital elements the Secretary's Trust Improvements Project. We have proposed two actions to improve the land records: ( 1) teams will be sent to the locations having the largest backlog in order to bring the

records current; and (2) the land records system will be upgraded in order to automate the chain of title process, which will significantly reduce the time required to record new ownership information.

Land records have also been identified as a mission critical material weakness. Follow-up reporting on progress to correct this deficiency will be accomplished as part of the Department's procedures to comply with the provisions of the *Federal Managers' Financial Integrity Act*. For that reason, we ask that it not be tracked under this audit.

- There was no formal agreement for disaster recovery pertaining to the UNISYS A-17 or the IBM 3090.

This was also a finding in the OIG Audit Report, "General Controls Over Automated Information Systems," (Report No. 97-I-771 ). As reported by a memorandum to your office dated June 23, 1997, a contract is in place for back up of the UNISYS A-17 computer. We do not plan to execute a similar contract for the IBM 3090 due to the pending transfer of BIA's data processing work to USGS.

- Security Controls over the UNISYS A- 17 are inadequate.
- Changes to the IIM system are not performed in a test environment on the UNISYS A-17 mainframe.

These findings were also identified in the above-referenced report under "Access Controls" and "Software Development and Change Control." Implementation of corrective actions is not yet complete, however, since we are reporting to the Department under the audit of automated information systems, we request that these findings not be tracked as part of the financial statement audit.

## STATUS OF AUDIT REPORT RECOMMENDATIONS

Finding/Recommendation Reference	Status	Action Required
17-26, 28, and 29	Resolved; not implemented.	No response to the Office of Inspector General is required. The recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.
27 and 30	Implemented.	No further action is required.

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